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# The form and use of social capital among foreign direct investors in their interactions with locals in Northern Laos

Bjarne Sorensen
*Edith Cowan University*

# Edith Cowan University

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# The form and use of social capital among foreign direct investors in their interactions with locals in Northern Laos

This thesis is presented for the degree of

**Doctor of Philosophy**

**Bjarne Sorensen**

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*Abstract*

The research conducted for this thesis is in the area of international business; it has focused on the emerging market of Laos – and it has in particular sought to identify the form and use of social capital in the northern part of the country. This thesis will present the rationale behind the research, the planning that took place before the fieldwork commenced, and most importantly the findings of the study.

Social capital is a sociological concept that since the early 1990s has gained significant recognition in the literature. While the benefits to holders of economic capital is commonly recognised – the literature argues that other forms of capital exist that, similar to economic capital, can be viewed as an asset that enables holders to reach desired outcomes. At the core of this thesis is the idea that individuals and businesses are embedded in social capital relationships and networks structures - and that these can be viewed as a resource, or strategic asset, which can be cultivated and used to improve business performance.

The benefits of social capital are particularly profound in Asian contexts, where social and exchange relationships have been documented to provide the basis for most business dealings, and where the performance of businesses has been found to correlate with their ability to build and maintain durable networks. Basically, the Western idea of single firms operating autonomously has in the Asian context been proven inadequate; in Asia business success is about relations, social capital, and strategic partnerships. Consequently, it is important for Western businesses expanding into the Asian region to learn and understand how social capital can supplement economic capital in the pursuit of desired outcomes (i.e. returns in the market place). While research has been conducted into social capital in different Asian countries, in particular China, Japan and South Korea, this research has gone beyond the present understanding of social capital by focusing on the Lao context. The study has contributed to the social capital and international business literature – and it will provide investors in Laos with practical guidelines on how to access the resource social capital represents.

Considering the unique circumstances of conducting research in one of the last frontiers of the world – a research design was required that could accommodate the flexibility needed in this new territory. For that reason a structured-case methodology, with an interpretive approach, was chosen for this research (as this method is particularly suited for theory that is in its early formative stages). Three case studies, conducted over four fieldtrips, were completed for the study into the phenomenon of Lao social capital.

The structured case methodology is basically an improvement on traditional case study methods that ensures validity through clear links between the research questions, the data collected, and the ultimate conclusions. Furthermore, triangulation enhanced the trustworthiness of the ultimate findings by examining the phenomenon of Lao social capital from many angles; having the same story emerge from a number of cases, respondents, and data sources added to the robustness of conclusions made.

Respondents were carefully selected based on the contribution to theory development they were deemed likely to make. A combination of judgment and snowball sampling was used to identify suitable respondents (given the sensitive nature of social capital this personalised sampling technique enhanced respondents comfort with the research). Respondents were selected from the expatriate community and included a broad range of nationalities (and Lao respondents were included in the study when they formed part of the business networks of the foreign respondents).

During the research it became clear that the importance of social capital for business operations in Laos should not be underestimated. This was emphasised by all respondents involved in the research. In Laos it is not so much about what is in the contract; it is about what is in the relationship. When developed with reputable people, social capital can be viewed as a strategic investment that helps facilitate economic returns in the marketplace. Social capital was found to assist holders to get things done in all aspects of business; to access needed resources and information; to develop local knowhow and expertise; to navigate legal and institutional voids; to gain access to decision-makers; and to form strategic and durable exchange relationships with committed and reliable partners. Lao social capital can basically be viewed as an arrangement that enables holders to pull all the right strings.

Lao social capital represents a relationship based around structures (e.g. bonding, bridging and linking) and social norms (e.g. face preservation, trust, reciprocity, and obligatory principles). While bonding social capital was found to be of strong importance among locals – bridging social capital was found to be of particular importance for foreign investors (as they have little networks or social capital upon their initial arrival in the country). Although linking social capital was found to provide substantial benefits (e.g. by speeding up bureaucratic processes) – linking social capital was found to be used less widely among foreign direct investors. Actors operating businesses in grey areas of legislation, or in industries traditionally controlled by the government, were found to have the greatest need for linking social capital.

During the research a number of avenues were identified, which can make the transition from an outsider to an insider take form. The most commonly cited methods include social interactions (ideally with powerful actors), patience and relationship building, repeated business, favour exchanges (and return of these when received), trustworthy operations, humour, intermediaries, as well as modesty and a genuine interest in Lao people and culture. Face, or *na*, in the form of reputation and goodwill was found to positively influence all aspect of social capital development. Basically, people with abundant face found it easier to bridge the gap into new networks, to access the resource social capital represent, and to reach desired outcomes in business (and life).

During the research it was documented that the distinctive version of social capital that exist in Laos, evolved the way it did to enable people to deal with a set of conditions that has influenced and transformed Lao society. Circumstances that influenced the evolution of Lao social capital include uncertainty and rapid changes, collectivism, high power distance, and limited legal infrastructure.

I certify that this thesis does not, to the best of my knowledge and belief:

i.  incorporate without acknowledgment any material previously submitted for a degree or diploma in any institution of higher education;

ii.  ii. contain any material previously published or written by another person except where due reference is made in the text of this thesis; or

iii.  contain any defamatory material.

Signed:

Date:                                    3$^{rd}$  December, 2015

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## Acronyms

| | |
|---|---|
| FDI | Foreign direct investor |
| RGL | Royal Lao Government |
| Laos | Lao People's Democratic Republic |
| NGO | Non-Governmental Organisation |
| IP | Intellectual Property |
| UN | United Nations |
| IMF | International Monetary Fund |
| UNESCO | United Nations Educational, Scientific and Cultural Organization |

# Chapter 1 - Introduction

Social capital is an important resource that facilitates cooperation and mutual trust (Latham, 1997), it is a key building block of society (Putnam, 1995), and it enables the accomplishment of desired outcomes (Bourdieu, 1986; Coleman, 1988). This research provides an investigation into the form and use of social capital among foreign direct investors (hereafter abbreviated to FDIs) in the Northern part of the Lao Peoples Democratic Republic (hereafter abbreviated to Laos). More specifically, the aim is to investigate how social capital operates in this environment – as well as the ways in which FDIs make use of the resource social capital represents.

This opening chapter provides the background to the study, discusses the significance of the research, and introduces the reader to the methodological considerations underpinning the study. The chapter concludes with a layout of the thesis.

## 1.1 Background of the study

In the following the reader will be introduced to the concept of social capital (a literature review and a detailed discussion of the phenomenon of social capital will be presented in chapter two).

Social capital is a sociological concept that since the early 1990s has gained significant recognition in the literature (Bourdieu, 1986; Coleman, 1988; Ferragina, 2010; Labonne & Chase, 2011; Lin & Si, 2010; Putnam, 1995; Putnam, 2001a, 2001b, 2009; Woolcock, 2001; Xiao & Tsui, 2007). International institutions like the World Bank, the OECD, academics, national governments, and many businesses have embraced the concept as a tool to secure social and economic development (De Mello; Gu, Hung, & Tse, 2008; Harper, 2002; Labonne & Chase, 2011; Lytras, Angel Sicilia, Sampson, & Ordóñez de Pablos, 2005; Menyashev & Polishchuk, 2011; Pugno & Verme, 2012; Putnam, 2008).

In academia social capital has emerged as an important umbrella concept within many areas of research (Jamali, Yianni, & Abdallah, 2011; Murayama et al., 2013; Nyqvist, Pape, Pellfolk, Forsman, & Wahlbeck, 2014; Purchase & Phungphol, 2008; Rossiter,

Goodrich, & Shaw, 2011). As a result of the intangible nature of social capital, the many disciplines in which it is studied, and the local variations of the concept – scholars have defined social capital in different ways. The phenomenon exists in many different situations, develops in different ways, and in all societies (Chou & Lin, 2007b; Latham, 1997). Nevertheless, a main theme throughout the discussion is the idea that social capital exists in relationships between actors, that it has value, and that it can be used to accomplish things (Bourdieu, 1986; Carlisle & Flynn, 2005; Chen, 2005; Coleman, 1988; Hitt, Lee, & Yucel, 2002; Latham, 1997; Lin & Si, 2010; Lin, Cook, & Burt, 2001; Szeto, Wright, & Cheng, 2006). Bourdieu (1986) and Coleman (1988) make the comparison between economic and social capital, and argue both enables holders to accomplish things that would not be possible without it. In business, social capital can be used as a tool to accomplish desired results and it takes the form of networks that guide and facilitate business transactions (Chen, 2005; Hitt et al., 2002; Lin et al., 2001).

The basic idea of social capital is that social networks have value – and that actors can reach desired outcomes through their personal connections. Bourdieu (1986) illustrates this through the example of an actor who holds a high degree of social capital in his local community, and who will be trusted among his peers to facilitate informal economic transactions. Carmen and Lewis (2015) argues social capital is productive, and illustrates this through an example of farmers who exchange machines to get more work done with less economic investment; through borrowing circles that can generate pools of financial capital for entrepreneurial activity; and through job seekers who often secure employment through their social networks. The idea that social capital is productive is also supported by Roseland (2012), who claims a rapidly expanding mass of research suggests that when social capital thrive, individuals, businesses, communities, and even nations prosper economically.

Coleman (1988) argues that in order for social capital to function, social structures of obligations, trust, and expectations must be in place. This is echoed by Hopfensitz and Miquel-Florensa (2014), Norris and Inglehart (2013), and The World Bank (2014c) who argue social capital comprise of a combination of structures and social norms. The idea behind social capital can be illustrated through the traditional understanding that:

*"It is not what you know, but who you know."*

For example, memberships of exclusive clubs often requires inside connections and a person in difficulties will often rely on friends and family as the final safety net (Woolcock, 2001). These represent examples of social capital, which is an important asset that can be used for material gain – or called upon to solve problems that are beyond an individual's capabilities.

## 1.2 Significance of the study

Internationalisation has become an important topic for business managers and academic discussion around the world. Falling trade barriers, rapidly expanding international markets and domestic market-maturity in many Western markets are driving companies to seek international expansion (Czinkota, Ronkainen, Sutton-Brady, & Beal, 2008; Griffin, Pustay, & Pustay, 1999; Sapienza, Autio, George, & Zahra, 2006; Wild, Wild, Han, & Rammal, 2007; Yip, 1989).

However, many Western businesses entering Asian markets grapple with complex and interwoven social capital networks (Hitt et al., 2002). Witt and Redding (2013) argue that attempts to understand Asian business systems through Western models are misguided; that Asian forms of capitalism are fundamentally different from their Western counterparts, and that Asian business system models need to incorporate factors such as informality, social capital, and unique cultural elements. This is an observation paralleled by many other researchers, who stress that a key aspect of Asian business models is the concept of social capital (Chen, 2005; Hitt et al., 2002; Lin & Si, 2010; Peng, Wang, & Jiang, 2008; Peng & Zhou, 2005; Purchase & Phungphol, 2008; Rehbein, 2007; Witt & Redding, 2013). For these reasons, it is essential for businesses in Asia, whether local or foreign, to understand and strategically use social capital.

Academically, social capital has since the early 1990s gained significant recognition in the literature; where academics and business managers have come to realise the importance of social capital as a tool to accomplish desired results (Chen, 2005; Coleman, 1988; Hitt et al., 2002; Latham, 1997; Putnam, 1995; Turner, 2007; 2005; Witt & Redding, 2013; Woolcock, 2001). Research reveals that different Asian countries have adopted their own unique versions of social capital (Hitt et al., 2002; Lin & Si, 2010; Lytras et al., 2005; Peng & Zhou, 2005). Consequently, in order to capitalise on the potential social capital

has for returns in the market place, it is important to understand the exact form it takes in a given country.

Even though many scholars have researched, analysed, and discussed social capital and its variations in many different situations and countries, research is yet to be undertaken into the concept in Laos. This study will seek to explore this lack of knowledge – and pave the way for further academic research and exploration. Social capital is likely to be a key contributor to business success in the Lao market due to a number of factors. Firstly, due to the fact that one important aspect of business throughout Asia is the concept of social capital (Chen, 2005; Hitt et al., 2002; Lin & Si, 2010; Peng et al., 2008; Peng & Zhou, 2005; Purchase & Phungphol, 2008; Witt & Redding, 2013). Secondly, because of the fact that Laos borders China where social capital is an all-encompassing factor in business dealings (Dunning & Kim, 2007; Gold, Guthrie, & Wank, 2002; Park & Luo, 2001; Szeto et al., 2006) and because many in the emerging 'middle class' in Laos are of a Chinese origin (Rehbein, 2005). Thirdly, because China and Laos share a similar history of foreign influences, civil war, communist rule, and recent market-economic reforms; factors that in China have contributed to the need for social capital (Banfe, 2011; Dunning & Kim, 2007). A fourth reason is the fact that social capital often makes up for deficiencies in formal institutions in less developed countries (Carlisle & Flynn, 2005; Szeto et al., 2006) and because Laos is one of the poorest and least developed countries in the world. A final reason why social capital is likely to be a key contributor to business success in Laos is Dunning & Kim's (2007) finding that social capital tends to be more profound in collective and high power distance countries, and because Asian countries rank high on both of these dimensions.

In a world of domestic market-maturity and rapidly expanding international markets, this research is highly relevant for both academic discussion and international business practice. The research will seek to fill a gap in existing knowledge in regards to the form and use of social capital among FDIs in Laos. It will contribute to the social capital and international business literature, go past the present understanding of social capital by focusing on Laos, and hopefully provide Laos with an improved standing in the international discussion.

## 1.3 Objectives of the study

There is strong business and academic justification for the research. Laos is one of the last frontiers in the world of international business, research, and academic discussion (Rehbein, 2005). In Laos, as in any emerging market, the successes of foreign investors have been mixed (Freeman, 2001; St John, 2006a; St John, 2006b). This research is in the area of international business. It will focus on the emerging market of Laos – and in particular identify the form and use of social capital among FDIs' in their interactions with locals in the northern part of the country.

As previously mentioned, in order to capitalise on the potential social capital has as a tool to reach desired results (i.e. returns in the market place), it is important to understand the form it takes in a given country. While research has been conducted into social capital in different Asian countries – this research will go beyond the present understanding of social capital by focusing on Laos. Rowlands (2005, p. 82) argues:

*"That what we want to learn will shape the research questions posed, and the questions posed will depend on the stage of knowledge of accrual about the phenomenon."*

Accordingly, the research questions for this study must reflect the fact that the study will be the first of its kind (since there is currently no literature on the concept of Lao social capital). Ultimately the study will develop a theory of the form and use of Lao social capital among FDIs in their interactions with locals in Northern Laos. This objective will be met by examining the form and use of social capital among FDIs, operating small to medium sized businesses, in their interactions with locals. Only FDIs that are well integrated locally, that have a good understanding of Lao business practices, and who have operated businesses for a number of years will be included in the study. Lao respondents will also be incorporated in the study when they form part of these respondents' business networks. The decision to make FDIs the main respondents of the study was taken as they would be more accessible, because they would have more sympathy for academic research, and because an aim of the study was to develop a theory that can assist foreigners operating in Laos. It was also hypothesised that foreigners, as outsiders, would have a better understanding of the different dimensions of social capital (bonding,

5

bridging and linking) than locals (many of whom are expected to rely on bonding networks).

All in all, while FDIs formed the main respondents of the study – the research intended to develop a theory on the form and use of social capital among small to medium sized businesses more generally in Northern Laos. More precisely, the field research used existing social capital theory as a benchmark to address the following primary question:

What is the form and use of social capital among foreign direct investors in their interactions with locals in Northern Laos?

In addition to this primary research question – the following secondary questions were addressed (with a focus on Northern Laos):

1. To what extend do existing theories explain the use of social capital among FDIs in their interactions with locals in the Lao business environment?

2. What are the similarities and differences between existing social capital theory with that used among FDIs in Laos?

3. What are key underlying factors that have helped shape the local version of social capital in Laos?

## 1.4 Methodological considerations

The aim of the study was to build theory from fieldwork that will examine professional practices in Northern Laos. The study should lead to a deep understanding of the use of Lao social capital – and it will unlock factors contributing to success in this market. In the following, a brief overview of the research methodology for this study will be provided with a more detailed discussion presented in chapter four.

Considering the lack of literature on the phenomenon being investigated in the Lao context, a qualitative study is considered the best methodology to support the research. A qualitative approach will allow the building up of an understanding of social capital in the

unique setting of Northern Laos. Furthermore, Eisenhardt (1989) argues that the case study research is useful in situations where little is known about a given phenomenon. This is supported by Benbasat, Goldstein and Mead (1987) who argue case study research is suited for theory that is in its early formative stages. Given the fact the study is aimed at building theory from a poorly understood phenomena, because there is a lack of valid social capital measurements (Putnam, 2001b), and because the study is aimed at discovering something new – a case study methodology is deemed appropriate for this research.

Interpretative research is concerned with meaning (Lee, 1991; Walsham, 2006) – and this research will take the form of an interpretative structured-case study, that will seek to develop meaning of FDIs use of social capital in Northern Laos. In order to enhance generalisability a multiple case study was selected for this study (Caroll & Swatman, 2000; Freeman, 2007; Shakir, 2004; Stoecker, 2005; Yin, 2003). More specifically, the research will use an interpretative structured-case methodology to develop a theory on the form and use of social capital in Northern Laos. Interpretive structured-case is an extension of existing case-study frameworks that provides a clearer and more coherent research structure for theory building; something that will ensure clear links between data collected and conclusions drawn (Caroll & Swatman, 2000; Koeglreiter, Smith, & Torlina, 2012).

According to Caroll & Swatman (2000), interpretative structured-cases comprise three main elements: a defined conceptual framework (which sets out the current understanding of the phenomena), a number of research cycles, and ultimately a literature scrutiny of the theory built. Each research cycle will for this study comprise one case study. The conceptual framework, or the broad research themes, is through a literature review developed in the initial stages of the research. This conceptual framework is then scrutinised through a number of research cycles; and at the end of each cycle the conceptual framework will be refined to incorporate new knowledge. The revised conceptual framework then forms the basis for the next research cycle (that will repeat this process). At any given time, the most recent conceptual framework represents the most recent version of the theory built. At the very end, when a point of theoretical saturation has been reached, the researcher will stop the research cycles/the adding of new cases and

the theory will be reviewed and compared to a broad range of literature (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012).

Due to the cyclical nature of the methodology, emergent themes can be continuously refined and tested for reoccurrence across multiple cases. This will lead to a strong base for the ultimate theory made (Eisenhardt & Graebner, 2007). Since the theory building process is closely tied to the data, the resulting theory will closely mirror reality (Eisenhardt, 1989). Triangulation, where different cases and data sources will be investigated, will furthermore strengthen the conclusions made (Neuman, 2006; Putnam, 2001b).

## 1.5 Thesis layout

Throughout the construction of this thesis a clear focus will persistently be maintained on the research objectives. This ensures trustworthiness and robust linkages – from the literature review where the first conceptual framework is constructed around the research objectives (chapter two and three); through the research methodology that was specifically tailored with the unique setting and research objectives in mind (chapter four); through the research cycles where the conceptual framework is progressively refined (chapters five, six and seven); and through the literature based scrutiny of the ultimate findings where linkages are established between the conclusions and existing theory from other situations and contexts (chapter eight). This is illustrated in Figure 1.1.

**Figure 1.1 Thesis layout**
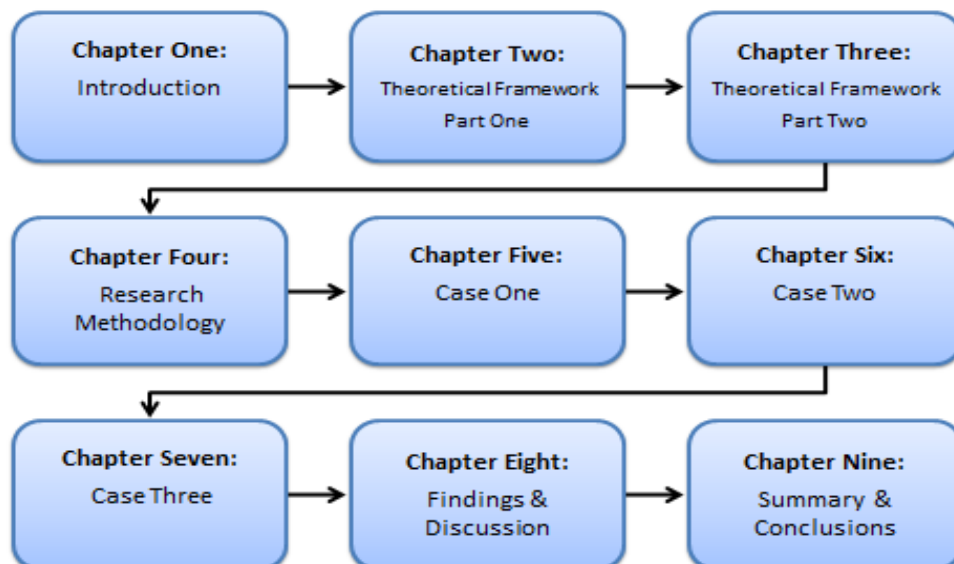
**Chapter one**, or this opening chapter, outlines the background to the study, discusses the significance of the research, introduces the reader to the methodological considerations underpinning the study, and provides a layout of the thesis.

**Chapter two** will take the form of a literature review providing the theoretical background for the study. It will provide the reader with an insight into the concept of social capital, make an argument that *guanxi* is a unique Chinese version of social capital, and identify *guanxi* as a suitable benchmark for Lao social capital. The factors that have helped make *guanxi* an all-encompassing factor in Chinese society will thereafter be discussed, and the specific historical and cultural influences that have shaped the unique version of social capital that exist in China will be identified. Based around the research objectives and the findings from this literature review – a conceptual framework will be constructed.

**Chapter three** forms the second half of the literature review (providing the theoretical background for the study) and will introduce the reader to the research scene. First a historical overview of Laos will be provided, with a particular focus of recent political and economic changes. An investigation will follow to explore if the specific historical and cultural influences that helped sculpt the Chinese version of social capital also exist in Laos. An argument will ultimately be presented that many similarities exist between the two countries.

**Chapter four** provides a rationalisation for, and overview of, the chosen research methodology. First a general discussion of research methods will take place; an argument will be presented that a combination of triangulation, combined with interpretative structured-case studies, will be the best methodology for this study. Sampling techniques, data collection methods, and analytical strategies will furthermore be discussed – and the issues of generalisability, reliability, and validity for this study will be addressed.

**Chapters five, six and seven** will each be centred on a case study conducted in Northern Laos. Each case study will initially provide an insight into the scene and context of the case study at hand. This will be followed by an outline of the data collection techniques, an analytical discussion, and findings will be presented according to the constructs of the latest conceptual framework. Emergent themes will be identified, and results will be

compared and discussed in light of existing social capital literature. At the end of each case study, the conceptual framework will ultimately be refined to incorporate new knowledge. This revised framework will then lay the foundation for the following case study until a point of data saturation has been reached (Caroll & Swatman, 2000; Koeglreiter et al., 2012).

**Chapter eight** provides a detailed description of the key findings across all the cases collectively in the light of the research questions. Findings will be examined in light of a wide range of literature in order to investigate whether the practices observed in Laos are replicated in other contexts or situations. Agreement between the discoveries from Laos with the literature from other contexts and situations will consolidate the findings and lead to a more powerful theory (Caroll & Swatman, 2000; Koeglreiter et al., 2012).

**Chapter nine** will present the conclusions, contributions and limitations of the study – and a proposal will be made for future directions for research on the topic of Lao social capital.

## 1.6 Limitations

Since very limited research and literature on Laos exists, and since research on the concept of social capital in the Lao business environment is non-existent, this thesis will be an initial step in exploring this field in the Lao setting. It is acknowledged that the outlined methodology and sampling method, as for any qualitative research, has the potential to be biased. The interviewer will seek to stay neutral, select respondents, and ask questions in a manner that will minimise this problem. Through triangulation the concept of social capital in Laos will be examined from many angles to validate the findings.

It is also acknowledged that, due to the qualitative research methodology, the findings cannot be generalised to the general population of Laos. What this research will accomplish is to develop an initial theory of social capital among FDIs in their interactions with locals in the Northern Lao business environment. It will then pave the way for further research and exploration to take place.

## 1.7 Ethical considerations

This research is intended to unlock one of the factors that limit business growth and success in one of the poorest countries of the world. It is likely to encourage further attention on the Lao market, business investment, and job creation.

Stake (2008, p. 140) argues case study research involves an 'intense interest in personal views and circumstances' – and ethical considerations are for that reason more crucial than for other types of research. The measure of ethical respect in the research will follow the principle outlined by Kim (2007, p. 92): "Would I like to be written about this way" and "Would I like to be addressed this way."

The researcher will not in any way misrepresent the purpose of the research to any parties. The researcher will maintain an honest and open relationship with respondents (who will be given full and accurate information about the research). The data collection and analysis will be conducted in an objective manner, free of personal biases and motives. Confidentiality of respondents will remain paramount and pseudonyms for people, businesses, and places will be used in accordance with ethical commitments. Obliviously, the research will be conducted in accordance with Edith Cowan University ethical guidelines for research.

## 1.8 Summary

Academics and business managers have come to realise the importance of social capital as a tool to accomplish desired business outcomes. Consequently, social capital has since the early 1990s gained significant recognition in the literature (Chen, 2005; Coleman, 1988; Hitt et al., 2002; Latham, 1997; Putnam, 1995; Putnam, 2005; Turner, 2007; 2005; Woolcock, 2001) – and institutions like the World Bank, the OECD, national governments, and many businesses have embraced the concept (Harper, 2002; Lytras et al., 2005; Putnam, 2008; The World Bank, 2014c).

In a world of fast expanding international markets, this research is highly relevant for academic discussion and foreign investors in Laos. While extensive research has been conducted into social capital – this research is the first to be undertaken into the concept in Laos. This research will contribute to the literature, it will provide investor in northern

Laos with practical guidelines how to access the resource social capital represents, and hopefully give Laos an improved standing in the international discussion.

# Chapter 2 - Literature Review

In the previous chapter the background and rationale for this study was outlined. This chapter will detail the theoretical framework underpinning the study.

In the following, a literature review of the concept of social capital will be undertaken. An argument will be presented that the Chinese variant of social capital, *guanxi*, is the form of social capital that is likely to resemble social capital in Laos the most. Relationships and associations between social capital in China (which has been covered extensively in the literature), and social capital in Northern Laos (a topic yet to be researched) will thereafter be the focus of this thesis. A literature review of social capital in China, its origins, and its influence on business will be conducted – in order to provide useful lessons for social capital development in Laos.

## 2.1 The concept of social capital

Daneshpajooh, Bakhtiari, and Masoumi (2014) and Lin and Si (2010) explains social capital as a phenomenon that over the last thirty years has witnessed a rapid expansion in research. Social capital is a sociological concept used in many fields of study, including business, economics, political science, sociology, public health, and organisational behaviour. Defining social capital is a difficult undertaking due to the intangible nature and the local variations of the concept. The phenomenon exists in many different situations, develops in many different ways, and in all societies (Chou & Lin, 2007b; Latham, 1997). Hence, scholars, from different disciplines and areas of research, have defined social capital in many ways as well. Nevertheless, a main theme throughout the discussion is the idea that social capital exists in relationships between actors, that it has value, and that it can be used to accomplish things (Bourdieu, 1986; Carlisle & Flynn, 2005; Chen, 2005; Coleman, 1988; Daneshpajooh et al., 2014; Hitt et al., 2002; Latham, 1997; Lin & Si, 2010; Lin et al., 2001; Szeto et al., 2006).

While the phrase 'social capital' dates back to Karl Marx use of the term in 1867 (Farr, 2004), and while the term was used occasionally during following years, social capital as a sociological concept gained real traction with the work of Pierre Bourdieu and James

Coleman in the 1980s. In the mid-1990s, the research into the phenomenon rapidly accelerated with Robert Putnam's publication of a study into the decline of America's social capital – a study that gained popular acceptance in mass-media (Farr, 2004). Nevertheless, it was Pierre Bourdieu's study, published in the mid-1980s, which ignited the recent renewal of social capital as a concept of importance in sociology. Pierre Bourdieu (1986, p. 249) identified social capital as:

*"The aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance and recognition."*

Bourdieu (1986) researched forms of capital and distinguished among different kinds (e.g. economic, human, cultural, and social) – and his research moves on to focus on the advantages of each form of capital. Burt (1997) distinguishes between human capital (ability of individuals) and social capital (the networks that allows individuals to benefit from their human capital). Nan Lin (2001, p. 18) takes a similar individualistic focus and defines social capital as:

*"Investment in social relations with expected returns in the marketplace."*

Hitt et al. (2002) argue that the Western idea of organisations operating in impersonal marketplaces through the concept of transactions is increasingly becoming inadequate; in particular in parts of the world, like Asia, where social and exchange relationships provide the basis for most business transactions. The view that businesses are embedded in social capital relationships and networks structures – and that these can be viewed as a resource (or strategic asset) that can be cultivated and used to improve organisational performance has wide support in the literature (Chisholm & Nielsen, 2009; Davidsson & Honig, 2003; Nahapiet & Ghoshal, 1998; Pollard & Jemicz, 2010; Roxas & Chadee, 2011; Santarelli & Tran, 2013; Westlund, Andersson, & Karlsson, 2013; Westlund, Larsson, & Olsson, 2014)

Ferragina (2010) argues social capital is an intangible form of capital that is generated collectively in communities and social networks – and that social capital can be used to accomplish desired results by both groups and individuals. Turner cited in (Dasgupta & Serageldin, 2001, p. 95) defines social capital as:

*"Those forces that increase the potential for economic development in a society by creating and sustaining social relations and patterns of social organization."*

This is a communal path many scholars have followed to guide research into the resource, and outcomes, of social capital on the group and societal levels. Latham (2000) suggests social capital is a resource that can be used to facilitate cooperation and mutual trust to overcome many of the disorders of modern society. Gu, Hung, & Tse (2008) argues that social capital is a resource that can be found in communities with strong ties, and illustrates this through Porters and Landolt's (1996) example from New York of Jewish diamond merchants who exchange jewels for examination based on trust (as opposed to formal paperwork).

Coleman (1988) argues that social capital is a public good which benefits those who are part of it. That it facilitates actions within some form of social structure – but otherwise is a flexible concept that may take a variety of forms. That social capital differs from other forms of capital in that it exists in relations among actors, but otherwise, like other forms of capital, is productive enabling the accomplishment of desired outcomes that would not be possible without it. Coleman (1988) further argues that the social structures that support social capital includes obligations, expectations, and trust; without which social capital cannot function. Coleman (1988, p. 98) illustrates this through an example:

*"If A does something for B and trusts B to reciprocate in the future, this establishes an expectation in A and an obligation on the part of B. This obligation can be conceived as a credit slip held by A for performance by B."*

Over time, A may accumulate many credit slips from B (or any other actors with whom A has relations). Of course, this system can only work if there is a high degree of trust in the social norms and networks. That is, Coleman (1988) does not look at social capital as an individual attribute, rather he argues that it is an aspect of social structures. The concept of trust also features highly for Witt and Redding (2013) who defines social capital as *trust*, and who distinguishes between interpersonal trust and institutionalised trust (which relates to confidence that the other will act honestly because there is a system in place that sanctions dishonesty). Witt and Redding (2013) furthermore argue that in situations characterised by lack of institutionalised trust (e.g. lack of legal frameworks) – people are

naturally motivated to rely on interpersonal trust (social capital) and discouraged to do business with strangers.

Hopfensitz and Miquel-Florensa (2014), Norris and Inglehart (2013), and The World Bank (2014c) argues social capital comprise a combination of structures and social norms (e.g. trust and reciprocity). This is echoed by Uphoff, Pickett, Cabieses, Small, and Wright (2013) who argues social capital can be viewed as being made up of structures and cognitive components (where the latter part refers to trust, social support and social cohesion). This path views social capital as a class of assets within social relationships, guided by social norms, that enables increased productivity and that can be used to enhance social and economic development. Putnam (1995, p. 2) who focuses on civic participation regards social capital as an feature of society and defines social capital as:

*"Features of social organization such as networks, norms, and social trust that facilitates coordination and cooperation for mutual benefit."*

In Putnam's (2001a) research on civic participation two types of social capital networks are discussed: bonding and bridging. Bonding social capital is made up of closed networks in homogeneous groups that share some social identity – and may include family, friends, ethnic enclaves, or staff within certain business organisations (Lin, 2008; Putnam, 2005; Turner, 2007; Uphoff et al., 2013; Woolcock & Narayan, 2000). An example of bonding social capital is the old Arab proverb illustrating the importance of family relations:

*"Me against my brother; me and my brother against our cousin; and me, my brother and my cousin against the stranger."*

Bridging social capital refers to more loosely connected networks between different groups with some social identity (Beugelsdijk & Smulders, 2003; Grafton, 2005; Putnam, 2005, 2009; Uphoff et al., 2013). This latter form of social capital can help actors move beyond the closed groups formed through bonding, and bridge the gap to outsiders. Both bonding and bridging social capital operates primarily on a horisontal level with actors connecting with the immediate community (Turner, 2007). Woolcock (2001) discusses a third type of social networking: linking social capital. Linking social capital works on the vertical level through the linking of actors from different social and economic backgrounds. It can help individuals form links with people in a position of power and

connect actors with more formal institutions like government officials (Putnam, 2005; Uphoff et al., 2013; Woolcock, 2001).

Putnam (2001a) and Putnam & Helliwell (2007) argue that social capital may exist in any situation where trust, associations, and social engagement takes place. These associations provide networks and norms of reciprocity and may range from highly formal associations like those that exist in the Australian volunteer fire services – to almost invisible forms like those that entails a nod to strangers in a public place. This latter form of social capital, while very thin, will create a small amount of reciprocity and Putnam (2001b, p. 2) suggest that if you provide a nod to people in a public space strangers are:

*"...more likely to come to your aid if you should have a fit or a heart attack."*

Putnam (1995) moves on to suggest that social capital knits the social fabric, that it is a key building block of society, and argues that a recent decline in social capital in the United States is reflected in lower levels of trust in government and civic participation. While Putnam (2001a) focuses on ways in which social capital can benefit society, he acknowledges that social capital (like any other form of capital) can be used for good or evil depending on the intentions of holders. Terrorists, for example, are often part of close networks of reciprocity and trust that enables them to do things that they otherwise could not (Putnam, 2001a, 2001b).

Other scholars follow an even broader macro line of thought in regard to social capital, including Chen (2005), who argues that social capital can facilitate economic development and social change on a national or even transnational basis (for example within the Chinese Commonwealth). Many academic works have focused on the link between social capital and economic prosperity (Chen, 2005; Hitt et al., 2002; Woolcock, 2001); with a key argument being that social capital can foster cooperation and thereby create economic growth. Economic prosperity based on social capital, however, can only take place as long as the right political and economic systems are in place; an example of this is the fact that social capital did not help create economic prosperity in places like China before Deng Xiaoping's market reform policies of the late 1970s (Chen, 2005).

Based on this discussion, it is now possible to argue that two major schools of thought exist in regards to social capital. One that primarily looks at the benefits of social capital

for groups and individuals, including Coleman (1988), Burt (1997), Szeto et al. (2006), Woolcock (2001), and Lin (2001) – and one that seeks to elevate social capital to a macro/society based level including Putnam (1995; Putnam, 2001a), Latham (1997), and Turner (2000). Some scholars have focused on a mixture of both, for example Lin and Si (2010), Chen (200, 2005), and Hitt et al. (2002).

These differing points of view are investigated by Beugelsdijk & Smulders (2003), Chen (2005), as well as Purchase and Phungphol (2008) who argues that two branches of social capital research exist, micro and macro, often with little interaction between them. The micro branch focuses on the benefits of social capital for individuals and the macro branch focuses on the benefits attained by groups and communities. Chen (2005) argues this may be caused by the different foci of scholars – or simply because of the difficulties in researching a broad and slippery concept. Chen (2000; Chen, 2005) takes the argument one step further and developed an integrated scheme that outlines three levels at which social capital can be found. These are the macro (societal) level, the meso (group) level, and the micro (individual) level. The argument being that social capital can be a public or private asset depending on the level at which it occurs.

The macro level deals with societal, national and transnational social capital – and may take the form of social networks based on historical, cultural, geographical and ethnic ties. Social capital on the macro level can lead to economic cooperation and development (Chen, 2005); an argument that follows Putnam's (1995) idea that social capital is a key building block of society. An example of social capital on this level is from the fact that much of the investment that has been channelled into China from diaspora Chinese have found its way back to the places from which the diaspora originated (Hitt et al., 2002). One of the reasons the Chinese central government established the first special economic zones on the coast of the Guangdong and Fujian provinces – was to target diaspora Chinese with cultural, social, and geographical connections to these areas (Chen, 2005). Hitt et al. (2002) provides another illustration of the importance of social capital on the macro level, with an example of government investments and staffing policies that in South Korea were channelled toward the province from which the former Korean president, Kim Dae Jung, came. Under Kim Dae Jung's leadership, the Chulla Province received substantially more official investments than other provinces, and many cabinet members and government officials came from this area.

At the meso level the focus of social capital tends to be organisational, institutional, and community based – and may involve networks based around family, education, religious backgrounds and firm networks (Chen, 2005). This point is also the focus of Turner (2000) and Latham (1997) who suggests that social capital can promote social cohesion and strong performance. An example of this is the diaspora Chinese family firms that demonstrates strong social bonding rooted in the Chinese family traditions (Chen, 2005). Another example is from Japan where companies consistently recruit staff from particular educational institutions; a practice that cultivates cohesion in the workplace with high levels of social harmony and integration (Chen, 2005).

At the micro level social capital involves norms, informal rules, commitment, cooperation, trust, and reciprocity between individuals and groups (Chen, 2005). Many scholars have focused on social capital on this level, including Nan (2001), Szeto et al (2006), and Burt (1997). Chen (2005) moves on to discuss how social capital can be used by individuals and groups in order to secure goods and opportunities. Chen (2005) and Bourdieu (1986) furthermore debates how social capital is often distributed unequally, and how some members in the social capital networks obtain greater benefits than others.

In summary, social capital can be found in many situations and in any social structure in which people associate, identify, and belong. Social capital involves some sort of social organisation, networks, norms, and trust. The phenomenon of social capital has over the last thirty years become increasingly popular among academics and practitioners – ranging from sociologists, economists, political scientists, business analysts, criminologists, to health researchers. Considering social capital has emerged as an important umbrella concept in a range of  disciplines – it is no wonder that a range of theoretical approaches has been used to define the concept (Purchase & Phungphol, 2008).

Uphoff et al. (2013), Islam, Merlo, Kawachi, Lindström, and Gerdtham (2006), and Harpham, Grant, and Thomas (2002) argues the that in order to measure and utilise the concept of social capital – it is often deconstructed into the dimensions of bonding, bridging and linking. Due to the exploratory nature of this project – a rather broad definition of social capital was needed to guide the research. Consequently Lao social capital was for this research project examined along these dimensions (bonding, bridging

and linking). Furthermore, of the two main branches of social capital research (micro and macro) this research has focused on the micro level (as it seeks to identify the form and use of social capital among FDIs in their interactions with locals).

## 2.2 Social capital in China

While social capital exists in all countries, the Asian cultures have to a much greater extent applied the concept than their Western counterparts (Hitt et al., 2002; Purchase & Phungphol, 2008). According to Hitt et al. (2002), business dealings in most Asian societies are based on relationships; where a successful executive in China will be referred to as well connected – whereas a successful business executive in the West will be described as rich. Szeto et al. (2006, p. 425) argues that:

*"Given the reality that entering the China market means entering into complex, interwoven guanxi networks, it is not unusual for foreign investors to flounder, as their social capital differs from the Chinese norm."*

Hitt et al. (2002), Purchase and Phungphol (2008), and Ye (2012) furthermore argues that success in many Asian firms is achieved through networks, and that actors in the networks must actively seek to develop and maintain effective working relationships, or social capital, in order to operate their businesses.

In recent years, the concept and importance of *guanxi* in China, and in the broader Chinese Commonwealth, has been widely discussed in academia and the popular press. The concept of *guanxi* refers to connections and relationships between individuals that enable a flow of transactions and exchanges of favours (Dunning & Kim, 2007; Gu et al., 2008; Hammond & Glenn, 2004; Hwang, 1987; Park & Luo, 2001).

Hitt et al. (2002), Xiao & Tsui (2007), Wong, Leung, Hung, & Ngai (2007), and Purchase & Phungphol (2008) argue that *guanxi* in China represents the Chinese version of social capital. A point echoed by many other scholars, including Knight and Yueh (2008) who argue that *guanxi* is the Chinese variant of social capital; Park and Luo (2001) who argue *guanxi* is a form of social capital because it involves reciprocity and exchanges of favours;

as well as Gu et al. (2008) and Setzo (2006) who argue that *guanxi* has its counterparts in many societies but that *guanxi* is a unique version of Chinese social capital.

Similarly, Coleman's (1988) definition of social capital draws close parallels to the concept of *guanxi*. Coleman (1988, p. 105) argues that social capital exists within social structures between actors and that:

> *"All social relations and social structures facilitate some forms of social capital; factors establishing relations purposefully and continue them when they continue to provide benefits."*

While Coleman (1988) does not specifically discuss *guanxi* – his definition of social capital clearly incorporates the concept. Similarly, Putnam (1995, p. 67) refers to social capital as:

> *"Features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit."*

While Putnam's research primarily focuses on American society, and for that reason does not specifically draw parallels between social capital and *guanxi*, his definition of social capital incorporates the concept of *guanxi*. That is, the idea that *guanxi* fits under the umbrella of the social capital discussion, that it is a unique Chinese version of social capital, has been argued by many prominent scholars. These include Lin & Si (2010), Chen (2005), Hitt et al. (2002), Knight & Yueh (2008), Szeto et al. (2006), Park & Luo (2001), Wong et al. (2007), Purchase and Phungphol (2008), and Gu et al. (2008). Many other scholars, who have not sought specifically to link social capital to *guanxi*, have defined social capital in rather complementary ways to the definitions of *guanxi*. These include Coleman (1988), Putnam (1995), Bourdieu (1986), Nan Lin (2001), and Hwang (1987).

The discussion so far has identified the importance of social capital in general and in Asia in particular. It has also concluded that the Chinese concept of *guanxi* is one local variant of social capital. In order to develop an understanding of Lao social capital – a benchmark is required against which the Lao version of social capital can be compared. The

conclusion that *guanxi* is a version of social capital enables comparisons to be made between social capital in Laos and *guanxi* in China. The fact that Laos and China has a similar history and governance (Dunning & Kim, 2007; Wong et al., 2007), shares a border, and the fact that Diaspora Chinese have settled in Laos over many years and now account for a large part of the emerging middle class (Rehbein, 2005) – suggest *guanxi* would be a good benchmark for the research in Laos. In the following section, the concept of *guanxi* will therefore be discussed in more detail.

## 2.3 The concept of *guanxi*

*Guanxi* is a sociological concept that is embedded into all aspects of Chinese society (Dunning & Kim, 2007; Gold et al., 2002; Lee & Dawes, 2005; Park & Luo, 2001; Xiao & Tsui, 2007). Chinese culture, with a history in excess of 5000 years has been functioning like a clan-like network ever since Confucius, in the sixth century BC, established a social philosophy stressing the importance of collectivism, harmony, interpersonal relations, networks, and hierarchical structures of authority (Park & Luo, 2001).

The concept of *guanxi* refers to connections and relationships between individuals that enable a flow of transactions and exchanges of favours (Dunning & Kim, 2007; Hammond & Glenn, 2004; Hwang, 1987; Park & Luo, 2001; Virick, Lilly, Simmons, & Weiwen, 2008; Wright, Szeto, & Cheng, 2002). The basic idea being that people who enjoy *guanxi* relationships are tied together by an unwritten code of equity and reciprocity (Dunning & Kim, 2007). The *guanxi* network is then drawn upon to accomplish desired results when a situation arises that is beyond an individual's abilities. In China government approvals, information, and limited resources like raw materials and water have often been allocated based on *guanxi* relations (Xiao & Tsui, 2007). At the same time *guanxi* provides a framework of norms defining how actors should operate within (and relate to) the larger social system (Hammond & Glenn, 2004). Yeung & Tung (1996, p. 55) argues that:

> *"Guanxi refers to the establishment of a connection between two independent individuals to enable a bilateral flow of personal or social transactions."*

Here the bilateral flow of transactions is essential, and both parties must benefit for the relationship to function. Yeung and Tung (1996) found *guanxi* to play a more important

role for small and medium sized businesses than for large companies. Large companies are often welcomed with open arms as they are seen as economic saviours by local authorities, whereas small- and medium-sized businesses must use *guanxi* connections to gain access to needed resources (Yeung & Tung, 1996).

Although many scholars have focused on the benefits of *guanxi* as a tool to promote interaction, exchange, and economic growth – *guanxi* also serves as a barrier between insiders within the *guanxi* network and outsiders, e.g. Westerners attempting to do business in China (Hammond & Glenn, 2004). Ambler (1995) describes *guanxi* through the analogy of a sand bar at a harbor entrance; a grain of sand that is part of the sandbar forms part of a powerful group – while a grain of sand on the outside is barely recognised. Since meaningful *guanxi* implies having a successful history of providing favours and working together – the establishment of good *guanxi* relations can be a slow and cumbersome process for outsiders. Chinese may well appear friendly and make outsiders feel well received for one meal or one business trip – without actually welcoming outsiders into a *guanxi* network (Grainger, 2006). While people in the *guanxi* community will find business deals easy to come by – those on the outside will find the same difficult, time consuming, and sometimes impossible (Grainger, 2006). Yeung & Tung (1996) draw the comparison of *guanxi* to a piece of wood thrown to a drowning swimmer. The wood in itself will not save the swimmer; this only happens if the swimmer understands how to use the wood effectively.

Park and Luo (2001) argue *guanxi* operates in communities with close family members at the core – and with distant relatives, classmates, friends, and acquaintances arranged at the fringe (according to the closeness of the relationship and the degree of trust). That is, bonding is an important aspect of *guanxi* and individuals must have, or construct, some sort of bonding in order to develop *guanxi*.

A *guanxi* base is a good starting point for developing the relationships required to do successful business in China (Grainger, 2006). A *guanxi* base, or common ground, is the point from which a relationship can start and later function as a tie that binds those with *guanxi* together. The *guanxi* base influences the weight of the requests that can be made in the relationship. Both parties will ideally invest time and effort in order to strengthen the *guanxi* into a strong emotional bond (Yeung & Tung, 1996). Yeung & Tung (1996)

developed a framework that outlines two ways in which actors can cross the gap between insiders and outsiders in the *guanxi* networks. These are group identification and altercasting (and will be discussed below).

## 2.3.1 Group identification

Group identification (bonding social capital) can be used to build *guanxi* and can be of two types: achieved and ascribed. Ascribed refers to kinship and locality – while achieved refers to a shared experience e.g. individuals who have gone to the same school, been to the same military unit, or who work for the same organisation (Lee & Dawes, 2005; Yeung & Tung, 1996).

## 2.3.2 Altercasting

Altercasting (bridging social capital) is the second way in which *guanxi* can be established, and is often used by Westerners as it does not require actors to have ascribed or achieved commonality (Yeung & Tung, 1996). Through altercasting, actors' social networks can be rearranged with the objective of including an outsider into a *guanxi* network. For example, two people who do not know each other, but who both know an intermediary, can be connected through that third person (Grainger, 2006; Park & Luo, 2001). One executive interviewed by Yeung & Tung (1996, p. 62) explained the importance of intermediaries:

*"The China market is like a pond full of hidden delicious food. A new fish in the pond can starve to death because he does not know how to locate the food. Your intermediary is an old fish who knows where every plant and plankton is. He can show you the precise location of this food so you can eat to your heart's satisfaction."*

That is, when outsiders wish to develop *guanxi* in China, one way of doing so would be to use altercasting, or bridging social capital, and find a personal reference (ideally someone who is a respected member of the Chinese community). These intermediaries can be found through foreign companies already established in China, trade officials, or possibly among Chinese who are undertaking tertiary studies abroad.

Once established, *guanxi* must be nurtured in order for the relationship to function (Grainger, 2006). Wong et al. (2007), Lee & Dawes (2005), and Yeung & Tung (1996) argue that a *guanxi* relationship ideally should evolve into a strong emotional bond to ensure durability. Yeung & Tung (1996) identified four strategies that can be used to nurture *guanxi* relationships. These are, cultivating trust, cultivating personal relationships, nurturing long-term benefits, and tending favours.

**Cultivating trust.** China is a relationship-based society and trust has been found to be an essential component of *guanxi* relationships (Grainger, 2006; Lee & Dawes, 2005; Lytras et al., 2005; Yeung & Tung, 1996). Trust can for example be built through the fulfilment of promises and/or through the demonstration of commitment to long-term relationships.

**Cultivating personal relationships**. Trompenaars & Hampden-Turner (1998) researched the extent to which people in different cultures strive toward cultivating personal relationships in business (a dimension on which China ranks high). This finding corresponds well with Yeung & Tung (1996) and Hwang's (1987) observation that the durability of *guanxi* can be ensured through strong personal relationships. Yeung & Tung (1996) found the material gains accomplished through *guanxi* networks can be fragile as they can easily be duplicated by others. For that reason, it is beneficial to let a *guanxi* relationship evolve into a strong personal relationship – something that is not easily duplicated.

**Nurturing long-term benefits**. Since small favours can readily be duplicated by others, it is important to also focus on long-term benefits (Lee & Dawes, 2005; Wong et al., 2007; Yeung & Tung, 1996). A strategy of developing long-term benefits should be aimed at creating interdependence between actors in the relationship. For that reason, it is important for foreigners to understand and meet the objectives of their Chinese business connections. For example, a government official may be interested in enhancing his political career by attracting foreign investment  – and a business partner may be interested in material rewards (Yeung & Tung, 1996).

**Tending favours** is the fourth avenue identified by Yeung and Tung (1996) to nurture *guanxi* relations. Since material gains are the core of *guanxi* networks – relationships cannot be sustained without tending favours (Grainger, 2010; Lytras et al., 2005; Wong et

al., 2007; Yeung & Tung, 1996). Gifts and favours can also act as a shortcut to the establishment of relations in the first place; they can open doors, help bridge the gap between insiders and outsiders, and initiate the cycle of *guanxi* exchanges.

## 2.4 Renqing

*Renqing* is a philosophy that underlies Chinese social capital and refers to the moral obligation to maintain a relationship through the exchange of favours (Park & Luo, 2001; Wong et al., 2007). The strength and depth of a person's *renqing* will determine what favours can be requested and it represents a person's willingness to sacrifice personal interests in order to help others within the *guanxi* network (Grainger, 2006). Hwang (1987) identified three important aspects of *Renqing*:

**The first** relates to a person's emotional responses to the various situations that confront people in their daily lives. Here it is important for an individual to understand other people's feelings and to act appropriately, to avoid what others resent, and to accommodate other peoples' tastes (Grainger, 2006; Hwang, 1987; Lee & Dawes, 2005). A person who acts according to these norms is said to know *renqing* (Hwang, 1987). An example of this type of *renqing* was provided by Hammond and Glenn (2004) through the example of the Chinese academic who declined the offer of an attractive post-doctoral research fellowship in Europe. The offer was declined on the grounds that the academic's father at the time was unemployed. Accepting the fellowship would disrupt the father's position as the head of the family, deepen the father's shame of being unemployed, and put the family relationship out of balance. In this case, the Chinese academic did not share his rationale for declining the post with his father, as that would have caused a loss of face. Even so, the father understood and appreciated the gesture all along (Hammond & Glenn, 2004).

**The second** key aspect of *renqing* is the fact that *renqing* represents a resource that can be used to facilitate social exchanges (Hwang, 1987). When an individual is experiencing difficulties, people within the *guanxi* network are supposed to render assistance (Hammond & Glenn, 2004; Hwang, 1987; Park & Luo, 2001). This will then be followed by a *renqing* debt whereby the receiver will owe a *renqing* to the donor(s) which should be paid back once circumstances permit. Basically, what motivates Chinese to provide

favours is the anticipation of repayment (Hwang, 1987). What motivates individuals to return favours is that they otherwise socially will be perceived as poisoning the well (Hammond & Glenn, 2004). If Chinese people do not meet their *renqing* responsibilities, they weave their *guanxi* networks. When one follows the obligations of *renqing*, and provides needed favours, one will at the same time be seen as a righteous person, improve one's reputation, and win trust and face (*mianzi*) from others (Grainger, 2006; Yeung & Tung, 1996).

**The third** component of *renqing* relates to the social behaviour norms whereby one has to abide (Hwang, 1987). The most important relates to continuously maintaining harmony and contact to one's *guanxi* network through gift exchanges, greetings, and visitations (Hwang, 1987). Hammond and Glenn (2004) illustrate this through the example of Chinese who often answer 'yes' to maintain harmony when asked a direct question; even if they mean no.

Hwang (1987) identifies *renqing* as a non-objective mix of quality, cost, and relationship; all of which are very difficult to attribute an exact value to. Opposite monetary debts in the West, that normally entails an exact value and date for payback, *renqing* debts are much more intangible (Hwang, 1987). Since a *renqing* debt cannot be calculated objectively, it is nearly impossible to repay a *renqing*, even when favours have been returned. The Chinese proverb "Foster your children to prevent misery in old age and hoard grain to prevent death" provides a good example of the concept of *renqing* within the family unit; where parents are expected to take care of their children while they are growing up – and the children then repay the *renqing* by taking care of their parents later in life (Hwang, 1987).

## 2.5 Mianzi

Chinese culture places great importance to the philosophy of *mianzi* (face) which also forms a key part of *guanxi*. *mianzi* refers to one's moral reputation, status, and respect, and actors will gain *mianzi* by living up to their *renqing* obligations (Wong et al., 2007). *mianzi* can be divided into the concepts of "*mianzi*" meaning social status and prestige, and Lian, the idea of being perceived as a morally correct actor within society (Lim, 2003). For Chinese it is essential to have and preserve *mianzi* in order to maintain or

expand one's *guanxi* networks (Hammond & Glenn, 2004; Park & Luo, 2001). Loss of face will bring shame and a social outcast status – something Chinese compare to physical mutilation (Grainger, 2006).

A recent Chinese migrant to Australia provided an example of the importance of *mianzi*. After graduating from high school, she followed her father's wishes, enrolled in medicine, and later became a gynaecologist (in spite of the fact that her passion lay in other fields). This student simply followed her father's wishes because of the Confucian belief in respect for the family hierarchy – and because her father social status and prestige would have been at stake had she disobeyed. Only when she migrated to Australia could she pursue her own career desires (in a completely different discipline). This example illustrates the importance of preserving *mianzi* through face saving activities.

The concept of *guanxi*, *renqing* and *mianzi* has now been discussed – and these concepts will be used as a benchmark for the research into Lao social capital. The concept of *guanxi* refers to connections and relationships between individuals that enable a flow of transactions and exchanges of favours (Dunning & Kim, 2007; Hammond & Glenn, 2004; Hwang, 1987; Park & Luo, 2001). *Renqing* (favour) and *mianzi* (face) bind people in a *guanxi* relationship together. The intangible nature of favours makes it impossible to fully repay *renqing* debts; and it is difficult to end the cycle of favour exchanges since not repaying favours means losing face (*mianzi*). That is, the accumulation of favours received and owed, together with the desire to preserve face, are important factors for Chinese social capital (Wong et al., 2007). Bonding social capital forms an important part of *guanxi* as it mainly operates in close-knit communities (Park & Luo, 2001); linking social capital forms part of *guanxi* since people in positions of power are supposed to assist people who are disadvantaged (Dunning & Kim, 2007; Grainger, 2010); and bridging social capital serves an important function when a need arises to cross the gap between insiders and outsiders (Yeung & Tung, 1996).

## 2.6 Reasons for *guanxi*

A number of environmental factors have contributed to the development of *guanxi* in China. These will be discussed below – as an understanding of the origins of Chinese social capital will provide useful insights for social capital development in Laos. It will be

argued, that most of the factors that have helped sculpt the unique version of social capital which can be found in China, also are present in Laos. These include uncertainty caused by turbulent political and economic changes, the teachings by Confucius, the lack of reliable institutions and legal systems, collectivism, and high power distance (Dunning & Kim, 2007). Each of these factors will be discussed below.

Firstly, throughout history, China has experienced dramatic political and economic changes which have resulted in extreme difficulties for individuals and businesses. In recent history, events such as the takeover of the Communist Party, the Cultural Revolution and the Great Leap Forward, has created a need for *guanxi* to ensure survival (Banfe, 2011; Dunning & Kim, 2007).

A second reason for the importance of social capital in China is the influence of Confucianism (Banfe, 2011; Hitt et al., 2002; Wright et al., 2002). Confucianism originated in China around 500 BC and Confucian teachings and values have held great sway in China ever since (Dunning & Kim, 2007; Hitt et al., 2002). A key factor in Confucianism is the belief that people are part of  larger networks of mutually dependent relationships (Hitt et al., 2002) – and in China this is manifested in the significance of social capital and interpersonal relations (Park & Luo, 2001). Being isolated in Chinese society means being seen as an outsider – which again is counter to the Confucian belief that everything exists in a state of relationships and connectedness  (Carlisle & Flynn, 2005). Hammond and Glenn  (2004) explains Confucius identified five critical relationships as ruler-subject, father-son, husband-wife, elder brother-younger brother, and friends.  Confucius furthermore prescribed clear social guidelines for each of these relationships with the aim of ensuring social order and harmony (Hammond & Glenn, 2004).

A third reason for the importance of *guanxi* in China is the primitive institutions and legal infrastructure, which traditionally has characterised Chinese society, and which makes it difficult to settle disputes through the legal system (Dunning & Kim, 2007; Krug, 2000; Wong et al., 2007; Yi & Ellis, 2000). Personal connections and networking can provide certainty and compensate for deficiencies in formal institutions (Dunning & Kim, 2007). Despite the introduction of legal codes governing business in China since reform commenced in the 1970s – Chinese business legislation remains vague and government

officials who hold positions of power remain the key to many transactions (Grainger, 2006, p. 27).

A fourth building block of *guanxi* is the idea that collectivism should take precedent over individual interests (Banfe, 2011; Dunning & Kim, 2007; Hwang, 1987; Lin & Si, 2010; Xiao & Tsui, 2007). Hofstede (2007) identified the cultural dimension of collectivism as the degree to which people are integrated into strong, cohesive in-groups – and all Asian countries scored high on this dimension. Basically, people in China are deeply embedded in the social fabric and this has helped make *guanxi* an all-encompassing factor in Chinese society (Dunning & Kim, 2007; Hwang, 1987; Szeto et al., 2006; Xiao & Tsui, 2007; Yeung & Tung, 1996).

Fifthly, Dunning & Kim (2007) found that high levels of power distance in Chinese society have contributed to the importance of *guanxi*. Hofstede (2007) identified the cultural dimension of power distance as the extent to which an unequal distribution of power is accepted among less powerful members in society. Confucianism is a key building block of *guanxi* – and within the Confucian philosophy a key element is the clearly defined place that individuals take within the social hierarchy (Dunning & Kim, 2007). Within this hierarchical system individuals in a position of authority and power are supposed to assist people who are disadvantaged; something that explains the *guanxi* tradition of linking people of unequal rank where the weaker actor receives more favours than what is returned (Dunning & Kim, 2007). When a powerful actor assists less powerful individuals in the *guanxi* network, the more powerful actor gains *mianzi* (Wong et al., 2007; Yeung & Tung, 1996).

## 2.7 Conceptual framework

In this literature review the different elements of social capital, in particular Chinese social capital, have been examined. As previously discussed, Chinese social capital will be used as a benchmark against which the Lao version of social capital will be researched (Table 2.1).

**Table 2.1 Conceptual framework - social capital components**

| Social capital components | China | Laos |
|---|---|---|
| Local definition | Guanxi is a relationship with exchanges of favours. In business guanxi can be viewed as an investment in social relations to help facilitate returns in the marketplace. | ? |
| Bonding | Guanxi operates in close–nit communities where members bond through group identification. | ? |
| Bridging | The gap between insiders and outsiders in the guanxi networks can be bridged. | ? |
| Linking | Within the Confucian belief system powerful actors are supposed to look after people who are disadvantaged; a cultural trait that enables actors at different levels of the social hierarchy to be linked. | ? |
| Moral obligations | Renqing supports guanxi and refers to the moral obligation to maintain a guanxi relationship; actors must assist when called upon, return favours, and maintain harmony in the relationship. | ? |
| Face | Mianzi refers to face and is an important part of guanxi that relates to the social status and moral character of a person. Mianzi will be lost if renqing obligations are not met. | ? |

In order to effectively use Chinese social capital as a benchmark for the research in Northern Laos – a clear framework which breaks down the components of *guanxi* and social capital is needed. Table 2.1 has been developed for this purpose and is based on the discussion that has taken place in this chapter.

While Table 2.1 outlines the social capital elements that were the prime focus of the research in Laos, Table 2.2 sums up central factors that helped shape the Chinese version of social capital. Based on the literature review (where many historical parallels between China and Laos were identified) a hypothesis was developed that the people of Laos have similar reasons to rely on social capital as do the Chinese (something that makes it relevant to research the gaps of Table 2.2 as well).

**Table 2.2 conceptual framework - social capital origins**

| Social capital origins | China | Laos |
|---|---|---|
| Confucianism | Confucian teaching stresses that everything exist in a state of relationships. This again supports the networking and social relations aspects of guanxi. | ? |
| Uncertainty & change | Change and uncertainty caused by war, revolutions, and changing policies have led to a need for trust and close relationships in China. | ? |
| Limited Institutions | Personal connections and networks compensates for deficiencies in weak Chinese (legal) institutions. | ? |
| Collectivism | People living in collectivist societies are deeply embedded in social structures and this reinforces the need for guanxi. | ? |
| High power distance | Within the high power distance society of China people have clearly defined places in the social hierarchy. A powerful actor gains face when assisting weaker members of the social capital networks. | ? |

Understanding the reasons behind Lao social capital development will enhance the knowledge of the concept. Through the establishment of links to the (Chinese) literature, findings from Laos will also be consolidated, something that will lead to more powerful conclusions about Lao social capital (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012).

## 2.8 Use of social capital among FDIs in China

It has now been established that guanxi is embedded into all aspects of Chinese society, and as previously explained, guanxi in China will be used as a benchmark for the research into the form and use of social capital among FDIs in Northern Laos. However, before this research commences, it is useful to first develop an understanding of how FDIs incorporate guanxi into their business practices in China (as parallels may be drawn to the situation in Northern Laos).

Chou & Lin (2007a) employed a case study approach to research industrial park developments by Taiwanese investors in China. A key finding of this study was that the industrial park developments largely take place through the utilisation of social networks.

Political tensions between Taiwan and China have traditionally created difficulties for Taiwanese investors in China – and the use of personal and social relationships have been found to limit (or even overcome) this problem. Chou & Lin (2007a) found Taiwanese investors use a combination of vertical and horizontal relationships to successfully invest in China. The horizontal networks refer to the bonding social capital documented by Putnam (2000); where Taiwanese investors use connections based on group identity (e.g. based on historical, geographical and/or ethnic ties). Due to the need for state support for land acquisitions and other administrative provisions, vertical networks based on personal and organisational relations with local state officials, was also found to be extensively used (Chou & Lin, 2007a). That is, individual and business relationships appears to flourish in spite of geopolitical tensions.

These findings are paralleled by Cheung (2004) and Smart & Hsu (2004) who found FDIs need social capital to overcome political and legal uncertainties in China. Smart & Hsu (2004) argue Diaspora Chinese investors in particular are able to effectively overcome political and economic complexities by forming networks, or linking social capital, with local authorities based on their ethnic ties (bonding social capital). Smart & Hsu's (2004) research revealed that in the early stages of economic development/after the initial opening of the Chinese economy in 1978 - ethnic and family ties were the preferred choice to reduce uncertainty among FDIs. With the growth of the Chinese economy (and the increased certainty provided through legislative improvements), later investments faced less political and legal uncertainty. At this stage, FDIs were found to be more willing to move beyond the closed bonding networks (based around common ground) - and to bridge the gap into professional networks with specialised technical knowledge. While bonding social capital has been the preferred choice of guanxi development, bridging social capital was found to be a key driver of the technical community's foreign direct investments in China. The reason being, that in the technology sector, close relations are unlikely to have the specific knowledge needed in a technical industry. That is, as Chinese manufacturing (and legislation) became more advanced, Smart & Hsu (2004) identified a trend from the use of bonding social capital, based on ethnic ties and family connections, toward the use of bridging social capital. Of course, considering Laos is still a Least Developed Country (Rigg, 2005), it is plausible social capital trends in this country will mirror those that could be observed in the early years of China's economic reform process (where bonding social capital prevailed).

Luo (1997) researched the relationship between guanxi development and the performance in terms of profitability among FDIs in China. The findings indicate that FDIs with strong social capital networks significantly outperform FDIs without. Lou's (1997) findings furthermore suggests that the origins and the length of operation (and guanxi development) among FDIs in China influence economic performance. Investors from Chinese commonwealth countries were found to outperform Western investors because of close cultural proximity, family origins, and shared guanxi traditions (or bonding social capital) that they held. This is supported by Xia, Qiu, & Zafa (2007) who researched firm resources that would explain the success or failure among small- and medium-sized Singaporean FDIs in China. The findings suggest that FDIs performance can largely be explained by a firm's resources; in particular guanxi skills; internal and external relationships; and professional knowledge.  That is, two of the three most important factors for business success in China relates to social capital (and the last relates to human capital).

Based on this discussion, it is clear that social capital is widely used among successful FDIs in China. It is also clear that investments from Chinese Commonwealth countries have outperformed Western investors due to the close cultural proximity and shared social capital practices (Luo, 1997). This may explain why the great majority of investments into China has come from Diaspora Chinese (Smart & Hsu, 2004). In the early stages of China's Open Door Policy, where investors faced high levels of political and legal uncertainty, many FDIs used bonding and linking social capital to establish their businesses successfully in China. Later, when FDIs faced less political and legal uncertainty, and when they needed more specialised knowledge (because Chinese manufacturing had moved up the ladder of technological advancement), bridging social capital became more important. Due to the fact that Laos is in a relatively early stage of political, legal and economic development compared to China, a social capital pattern similar to that of early Chinese development may very well be found among FDIs in this country.

## 2.9 Summary

This chapter has provided an overview of social capital in general – and of Chinese social capital (*guanxi*) in particular. An argument was presented that Chinese social capital would provide a suitable benchmark for the research in Laos. The following chapter will provide an overview of the research setting in Laos.

# Chapter 3 - Introducing Laos

This chapter will provide an overview of the research setting in Laos. In the previous chapter it was argued that a number of historical and cultural factors have laid the foundation for the unique version of social capital that exists in China. In this chapter an overview of Laos will be provided, with a focus on whether similar factors could have shaped social capital development in this country.

First a brief overview of Laos will be offered. Thereafter a historical overview of Laos will be provided, with a particular focus on political and economic changes (as rapid changes in China helped create a need for social capital). This will be followed by a literature review investigating the Lao legal system, the influences that Confucius has had on Lao society, together with a discussion of the cultural dimensions of collectivism and power distance in Lao society (as these factors also helped sculpt the Chinese version of social capital).

## 3.1 Laos

The geography of Laos is, according to Khouangvichit (2010), characterised by three key features. Firstly, Laos is a landlocked country bordering the major growth economies of China, Vietnam and Thailand (as well as Cambodia and Myanmar). Given this geographical location, Laos has the potential to become a transport link and a key economic corridor for the region. Secondly, Laos is rich in natural resources, in particular natural minerals, hydropower, and natural beauty which can be exploited for tourism purposes (Khanal, Gan, & Becken, 2014; Khouangvichit, 2010; Smits, 2011). The third factor that characterises Laos is the fact that around 80 precent of Laos is covered by mountains; something that traditionally has created difficulties for transportation, communication, and accessibility to markets and services.

**Figure 3.1 Map of Laos**



Economically Laos is a Least Developed Country, with a GDP per capita of US$ 1555 in 2013, and with three-quarters of the population employed in subsistence agriculture (Chheang & Wong, 2014). Laos has just over 7 million inhabitants and is known for its ethnic diversity; estimates range from 47-132 languages spoken based around three separate writing systems (Djité, 2011; Enfield, 2009; Khouangvichit, 2010; Rehbein, 2007; Rigg, 2005). The predominant language, Lao, which forms part of the Tai-Kadai language family, is spoken by about 3 million people (Djité, 2011). The principle religion of Laos is Theravada Buddhism (85%), which easily coexists with animism (15%) found among the mountain tribes, and smaller groups of Muslims and Christians (Djité, 2011; Usa, 2007). The population can be divided into three main groups; Lao Loum, Lao Theung, and Lao Soung (Chantachon, 2009; Strandgaard, Johansen, Aagaard-Hansen, Petlueng, & Ornbjerg, 2008). Within these main groups approximately 45 to 75 additional ethnic minorities exist (Ducourtieux, Laffort, & Sacklokham, 2005; Tran et al., 2007). According to Chantachon (2009) and Rigg (2005):

- Lao Loum, or Lao Lowlanders, is the dominant ethnic faction and originates from the Thai-Lao ethnic group. They live primarily on the basins and flatlands along the Mekong River. This group accounts for approximately half the Lao population.
- Lao Theung, or Lao Highlanders, are people who live in the highlands (300-1200 meters above sea level) or in the plateau. Most live in Northern Laos and belong to the ethnic families of Khmer and Hmong.
- Lao Soung, or Mountain Laos, primarily lives in mountainous areas (1000 meters or more above sea level). Most live in Central and Northern Laos and belong to the Sino-Burmese and the Tibetan-Burmese ethnic groups.

A significant part of the research for this thesis will be conducted in Luang Prabang. The ethnic makeup of Luang Prabang is 46% Lao Theung, 40% Lao Loum and 14% Lao Soung (Chantachon, 2009). This ethnic make-up is near ideal, as it will provide a good cross-section of the Lao ethnic makeup. Even though the research focuses specifically on Northern Laos, where Luang Prabang is located, the ethnic makeup will allow for insights into social capital practices among all the main groups of the country.

Since 1986 Laos has been in a gradual transition from a centrally planned command- to a market oriented economy (Bourdet, 2000; Kyophilavong & Toyoda, 2008). Generally speaking, this transition has largely been successful; with the exception of a period in the mid to late 1990s (around the Asian Financial Crisis) – Laos has reached high economic growth of approximately seven to eight percent annually since 1992 (Bourdet, 2000; Chheang & Wong, 2014; The World Bank, 2014b). In recent years a number of large-scale operations in the natural resource sector have been starting up (Leung, Bingham, & Davies, 2010; The World Bank, 2014a). Laos recently became a member of both ASEAN and the WTO (Chheang & Wong, 2014) something that is likely to further promote trade liberalisation and private sector expansion (Chang & Kee, 2008; Kyophilavong, Takamatsu, & Ko, 2010). In recent years, Laos has experienced growth and foreign investments in hydroelectric power, mining and the rapidly developing tourism industry (Chang & Kee, 2008; Khanal et al., 2014; Kyophilavong & Toyoda, 2008; Lintner, 2008)

## 3.2 Political and economic changes

In Chapter one it was argued that social capital in China has been used as a tool to ensure survival during uncertain times of dramatic political and economic changes (Banfe, 2011; Dunning & Kim, 2007). In this section it will be argued that the people of Laos also have experienced significant uncertainty caused by civil war, foreign interference, migration and rapidly changing policies. An overview of Lao political and economic history will be provided to substantiate this claim. It will be documented that uncertainty caused by political and economic changes took place in Laos similar to, or in excess of, that which transpired in China. It is therefore plausible that change and uncertainty also would have motivated the people of Laos to rely on social capital as a solid rock in a stormy sea.

## 3.3 Early Lao history

Up until the 19th century, the region that was to become Laos was characterised by multicultural and multiethnic rural societies with shifting power relationships and fluid boarders, or mandalas, at times unified under a king or prince (Rehbein, 2005, 2007; Stuart-Fox, 1997). Endemic warfare fought by large armies with elephant corps and numerous invasions from Burmese, Vietnamese, and Thai mandalas would mark the area that would later become Laos (Stuart-Fox, 1997).

## 3.4 Laos as part of French Indochina

In 1893 Laos became part of French Indochina; a status that lasted until 1953. During French colonialism, Laos became a nation with clear borders, an emerging urban economy, and a process was initiated of creating a unified Lao identity under the banners of monarchy and Theravada Buddhism (Pholsena, 2004; Rehbein, 2007). Laos was during this time not economically self-sufficient – and forming part of the French colonial empire would become the start of a long period of economic aid from the outside world (Rehbein, 2005; Stuart-Fox, 1997). As a result of the inhospitable topography, the French did not see much prospect for Laos becoming more than a support entity and transport corridor for the rest of French Indochina. The French occupiers held a view that (Stuart-Fox, 1997, p. 46):

*"The Lao might have numerous fine qualities, but that work ethic was not one."*

And, for that reason, Vietnamese civil servants were brought in to undertake most of the administrative work in Laos (Fry, 2007). Under French rule education was not a priority area – and only 6700 students were between 1917 and 1939 officially enrolled in primary education through Lao government schools. A full secondary education was first offered after the Second World War through the French language College Pavie de Vientiane (Djité, 2011).

During the second world war French Indochina was occupied by Japan (Dana, 1995; Dommen, 2002). Just before Japan's surrender in 1945, King Sisavand of Laos was encouraged by the Japanese occupiers to declare independence from France (Usa, 2007). This advice was followed, but in spite of the independence declaration, France would reassert control of Laos after the fall of the Japanese empire (Dommen, 2002; Lee, 2008)

The declaration of independence would, however, be followed by a process of growing nationalist sentiment in Laos (Rehbein, 2007; Usa, 2007). While Laos was a secondary issue at the Geneva Peace Conference in 1954, aimed at ending the first Indochina War, an agreement was reached through the Geneva Accords that Laos should be an independent country. Independence led to a new era which would dramatically change the political and economic landscape of Laos. The following two decades would be marked by war, migration and the influence of foreign powers. France and the United States of America supported the Royal Lao Government and wanted a Thai styled political system – and Vietnam, the Soviet Union, and to some extent China, supported the Pathet Lao (an anti-French rebel group operating in the Northern and Eastern parts of Laos) that envisioned a socialist system (Djité, 2011; Fujita, 2006; Khouangvichit, 2010; Rehbein, 2005). To further complicate the political grapple a third camp, the neutralists, who fought for independence and the end of Lao territory being used as a base for rivalry between foreign powers, took part in the political struggle (Djité, 2011). This political (and military) grapple will be discussed below.

## 3.5 Independence and civil war

Initially after the Geneva Peace Conference in 1954, the prospect for peace looked promising. The Kingdom of Laos became a constitutional monarchy (Dana, 1995; Usa, 2007) and a parliamentary system with general elections for the National Assembly was introduced (Lee, 2008). A plan was developed to integrate the Pathet Lao into the Royal Lao Government through general elections (Lee, 2008). By 1957 the Pathet Lao agreed to transfer control of its territory in return for cabinet minister posts in the Royal Lao Government (RLG) (Lee, 2008). During this period the preference for Vietnamese nationals in the administration that was in place under French rule was reversed – and the RLG developed a local civil service and a small industrial sector (Fry, 2007).

Regrettably, the power-sharing arrangement, reached at the Geneva Peace Conference in 1954, did not eliminate the friction between the capitalist oriented RLG and the socialist oriented Pathet Lao; friction that was further fuelled by superpower rivalry between the United States of America and the Soviet Union. The partnership government buckled in 1958 – at which stage the RLG fraction regained control (Djité, 2011; Usa, 2007). The

following years would be characterised by armed conflict and successive failed attempts to form unity governments (Djité, 2011). In 1960 Kong Lee, a paratrooper captain, committed to ending the fighting, sized the capital Vientiane in a coup and imposed the formation of a neutralist government (Usa, 2007). The newly formed neutral government was led by Souvanna Phouma – but was later in the same year driven out by right-wing forces loyal to the RLG (Usa, 2007). This would soon be followed by an alliance between the neutralist movement and the Pathet Lao (who received support from the Soviet Union). The RLG, led by Phoumi Nosavan, the general who drove the neutralist government out, would simultaneously receive support from the United States of America (Usa, 2007).

In 1961 a second cease-fire agreement was reached in Geneva, and the following year another power sharing government was established (Correll & Kennedy, 2006; Lee, 2008). Again, this government faltered and the civil war resumed; largely due to outside interference by foreign powers that used Laos as a buffer zone for their special interests (Correll & Kennedy, 2006; Lee, 2008). Laos was dragged into the Vietnam War when the North Vietnamese army used the Eastern parts of Laos, the Ho Chi Minh trail, as a supply route and staging ground for their war (Correll & Kennedy, 2006). The North Vietnamese would provide support for the Pathet Lao, who consolidated its power in the Northern and Eastern parts of Laos under Vietnamese control (Correll & Kennedy, 2006). The North Vietnamese use of Laos as supply routes would be subjected to massive U.S. aerial bombardments of territories controlled by the Pathet Lao (Fry, 2007); something that resulted in large scale migration and relocation of people from the Eastern to the Western part of Laos (Fujita, 2006; Hyakumura & Inoue, 2006). In the late 1960s and early 1970s over 2 million tons of bombs were dropped on Laos by the United States of America (Djité, 2011). With up to 30% of bombs left unexploded – this has caused massive problems for Laos up to this day (Djité, 2011).

Between 1968 and 1973 Laos increasingly became a battlefield between North Vietnam and the USA (Djité, 2011). In the period from 1968 until 1973, Lao living in the area around the capital, Vientiane (which was controlled by the RLG and supported by the U.S.A.) were among the highest aid recipients per capita in the world (St John, 2006b). The RLG survived on foreign aid which covered approximately 80% of the government expenditures (Lee, 2008). At the same time, the US would spend about ten times the RLG budget on military and economic activities in Laos; something that greatly boosted the

urban economy under the RLG control (Lee, 2008). As a result of the massive inflow of capital – corruption, prostitution, smuggling and drug dealing ran rampant, politicians and generals enriched themselves, and the service industries were booming (Djité, 2011). Meanwhile, the Pathet Lao controlled areas received significant commodity assistance from similar ideologically based regimes like China and the Soviet Union (St John, 2006a; St John, 2006b). Unfortunately the aid received by both the RLG and the Pathet Lao was not used for economic development but rather to meet expenditures; something that would lead to a dependence on foreign aid that would plague Laos for years to come (St John, 2006b).

In 1973 a new peace initiative, the Paris Peace Agreement, was signed between the RLG and the Lao People's Revolutionary Party (LPRP), the political arm of the Pathet Lao guerrillas. Here both parties reaffirmed their supported the 1962 Geneva Accords and agreed to form a coalition government (Correll & Kennedy, 2006). Again, the power sharing agreement did not last, the struggle between the rightist, the leftist, and the neutral fractions continued, and the truce was broken yet again (Correll & Kennedy, 2006; Rosser, 2009).

Following the process of U.S. disengagement from the region, and after the communist victories in Vietnam, the Pathet Lao supported by North Vietnamese troops seized power in Laos in 1975 and installed the LPRP government (Correll & Kennedy, 2006; Rosser, 2009; Usa, 2007). At this stage 25% of the population had become refugees (Lee, 2008). The conflict ended in 1975 when the LPRP took over the governance of Laos, officially renamed the country the Lao People's Democratic Republic and swiftly entered the community of socialist states (Chantachon, 2009; Khouangvichit, 2010; Pholsena, 2004). With the support of North Vietnamese troops, the LPRP government relatively quickly brought peace to, and establish control of, the country (Rosser, 2009).

## 3.6 Communism

The forming of the LPRP government would be the start of yet another era of rapid political and economic changes; this time characterised by Marxist-Leninist policies and economic centralisation (Chantachon, 2009). The communist takeover would also be followed by another wave of migration of people and capital – when most of the

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aristocracy, educated urbanists, foreign business people and those who cooperated with the Americans left the country (Lee, 2008; Lintner, 2008; Rehbein, 2007; Rosser, 2009).

Significant political, cultural, economic, and social transformations would be embraced under the LPRP rule. The monarchy was removed, Buddhism disappeared from the public agenda (Fry, 2007; Pholsena, 2004), and the policy of homogeneity pursued by former rulers was abolished and the multi-ethnicity of Laos would now be celebrated and used as a trademark for the reborn nation (Pholsena, 2004). Unity, equality and acceptance of differences among the different ethnic groups would become a key pillar of the LPRP's political agenda (Pholsena, 2004). The president of Laos, Kaysone Phomvihane, would pursue education among ethnic minorities and seek to improve living conditions in remote areas. While the ultimate goal in Laos over time was to create a socialist identity greater than any ethnic loyalties – the idea was first to eliminate old mistrust through a period of national equality (Pholsena, 2004).

The economic complications for the newly installed government were momentous. Decades of fighting had caused massive destruction of livelihoods and property, two decades of generous U.S./Western aid suddenly dried up, and the booming economy of Vientiane had largely been based on supplies to US soldiers that had now left (Rehbein, 2005; Rosser, 2009). Ideological differences, and a fear of interference, would lead to sporadic closure of the border to Thailand, traditionally Lao's most important trading partner (Andersson, Engvall, & Kokko, 2009; Khouangvichit, 2010). All of these factors added up to a severe economic crisis, with currency devaluations, high inflation and a collapse in the urban economy (Fry, 2007). The economic woes was amplified by the fact that while the LPRP government comprised of experienced guerrilla fighters, they had little knowledge or skill in economic management (Rosser, 2009). For these reasons, the country largely reverted to the peasant economy that were in place before 1954 (Rehbein, 2005; St John, 2006b). The obstacles confronting the new LPRP government were furthermore augmented by the fact that many of the skilled bureaucrats of the Royal Lao Government had left the country (St John, 2006b).

During the party congress in 1975, the newly installed government decided to restructure the economy along Stalinist principles. A centrally planned economy was introduced, with trade and domestic prices strictly controlled by the state (Khouangvichit, 2010;

Kyophilavong & Toyoda, 2008). In 1978 the LPRP government took the socialist revolution a step further and introduced a major development plan aimed at centralising agricultural production on the foundation of village-based cooperatives (Evans, 1990; St John, 2006b). The government argued that the creation of the cooperatives would tap into the traditional organisation of mutual assistance in the villages (St John, 2006b); something that suggests a certain level of bonding social capital exists in the villages (social networks between homogenous actors). Over the coming years a rapid process of collectivisation would take place with 2,800 Sahakone Kaset, or agricultural cooperatives, established in 1979 (St John, 2006b). Regrettably for the Lao socialist revolution, this collectivisation process mirrored that of other socialist countries, with agricultural outputs declining and uncertainty and resistance among cooperative members increasing.

Fortunately for the LPRP government, a lifeline was provided in that foreign aid quickly regained momentum (St John, 2006b); with annual state revenues coming from foreign aid brought back to approximately 80 percent in 1982 (St John, 2006b). The composition of the aid, however, was tilted from Western countries to socialist supporters (Khouangvichit, 2010; St John, 2006b). Even so, the LPRP took a strategic approach to foreign aid, in that it acknowledged that it could not rely on aid from the communist block; and that it needed capitalist donors as well (St John, 2006b). This strategy proved successful, and in addition to assistance from Moscow, a mix of other donors would also deliver aid to Laos after the communist takeover. These included the United Nations, the Asian Development Bank, the World Bank, Sweden and Australia. In spite of the socialist orientation of the LPRP government, even the United States delivered modest amounts of food aid in the period 1977-1979 (Lintner, 2008; St John, 2006b). Vietnam, while not capable of providing much economic assistance, would be the closest political ally of Laos. Vietnam provided some 6000 civilian advisors and up to 50,000 troops to support the LPRP government, something that would have a huge influence on Lao political and economic decisions in the years to come (St John, 2006b).

Laos encountered many obstacles through the early years of the communist takeover. Large-scale confusion gripped the country caused by the rapid changes that took place; with many provincial authorities and government officers struggling to understand the policies surrounding the economic transformation (Khouangvichit, 2010). Additional complicating factors included natural disasters, the lack of trained administrators (many of

whom migrated after the LPRP takeover), and threats of internal and external resistance (Khouangvichit, 2010). Khouangvichit (2010) argues that following the introduction of rice taxation and purchase policies within the fixed priced government system, broad opposition to the collectivisation initiative emerged among peasants (many of whom had never before paid taxes). As in other countries, uncertainty caused by the changes outlined above, could very well have encouraged the people of Laos to rely on relationships as a resolute in a rapidly changing environment (Cook, 2005; Michailova & Worm, 2003; Narayan & Pritchett, 1999).

## 3.7 Reforms

Confronted with falling living standards and the possibility of an economic meltdown, the new LPRP government quickly realised, that the image of growth and development founded on a centrally planned economy was illusionary (Bourdet, 2000; Djité, 2011; Usa, 2007). Consequently, in 1979, just over a year after the introduction of the agricultural cooperatives, the Lao Prime Minister, Kaysone Phomvihane admitted, in an unusual move for a communist state at the time, that the LPRP had pursued a policy of overcentralisation (Khouangvichit, 2010; St John, 2006b). This would be followed by an admission that the policy of collectivisation, elimination of private businesses, and the fixed prices policies had all contributed to pushing the population into poverty (Khouangvichit, 2010).

In tandem with the acknowledgment of the difficulties in building socialism in a less developed economy – the LPRP government embraced some decentralisation and market-economic principles (Fujita, 2006; Kyophilavong et al., 2010; Onphanhdala & Suruga, 2010; Rehbein, 2005; Rosser, 2009; St John, 2006a; St John, 2006b). While a strong belief in the ultimate revolution still existed within the LPRP government, it nevertheless acknowledged that it was necessary to build the economy from the grass-roots up (St John, 2006b). One important change was the abolishment of the agricultural cooperatives in favour of family farming – with only 65 cooperatives remaining in 1980 (Khouangvichit, 2010; Rosser, 2009; St John, 2006b). Khouangvichit (2010) and St John (2006b) explains provisions to withdraw from the cooperatives were provided for peasants, (who had been forced into them in the first place).

Substantial reform was introduced in 1986 under the 'New Economic Mechanism' which included a number of far reaching reforms that would be a major step in turning around the economic fortunes of the country (Bourdet, 2000; Hyakumura & Inoue, 2006; Kyophilavong et al., 2010; Kyophilavong & Toyoda, 2008; Rehbein, 2007). The reforms were aimed at generating private production through the reduction of price and production controls (e.g. permitting farmers to own land and sell products at market prices); to improve the market economy through institutional development; to liberalise internal and external trade (e.g. replace trade barriers with tariffs); and to ease exchange rate regulations (Andersson et al., 2009; Fane, 2006; Kyophilavong et al., 2010; Kyophilavong & Toyoda, 2008; St John, 2006b). These initiatives would lead to a long transition from a command- to a more market oriented economy, where trade barriers were lifted, market prices introduced and foreign investors were offered favourable conditions (Kyophilavong et al., 2010; Kyophilavong & Toyoda, 2008). While socialism remained the ultimate goal; the more immediate needs of political stability through the provision of improved standards of living was considered more important (St John, 2006b).

Trade liberalisation would be given a further boost in 1989, when the LPRP government reached agreement on additional reforms with the IMF and the World Bank (Usa, 2007). Fiscal and monetary reforms were expanded, trade regulations were eased, state firms were privatised, banking reforms initiated, and foreign investment encouraged. It should be noted, though, that reforms in Laos can be a slow process; for example there was no working ATMs in the country when the author first visited in 2006.

By the early 1990s private ownership was the dominant form of property rights in the agricultural sector. The market oriented reforms would continue into the 1990s with a new constitution introduced in 1991 guaranteeing private property and foreign investments (St John, 2006b). Between 1988 and 1997 the number of state owned enterprises were reduced from over 600 to about 30 (Leung et al., 2010).

After the collapse of the Soviet Union and as Laos embraced market reforms, support from the capitalist world would intensify. Japan became the prime donor in the early 1990s; while European states and Australia also provided significant aid (St John, 2006b). Following the death of Prime Minister Kaysone in 1992, China would to some extent become a new role model for Laos (St John, 2006b). That is, during the 1990s Laos

followed the path of China with economic reforms, private ownership and one-party rule; or 'perestroika without glasnost' as described by Bourdet (2000). That is, while communist ideology for economic policy faded, it remained a powerful force in the Lao political system (Lintner, 2008). Laos is now characterised as a socialist-oriented market economy (Chheang & Wong, 2014).

## 3.8 Openness and foreign direct investment

The initial business liberalisation and economic reform program, led to a great deal of overseas interest in this new frontier of international business (Freeman, 2001). Investment in Laos rapidly rose after the initial liberalisation; reaching almost USD 200 million in 1996 (Andersson et al., 2009). Significant foreign investments were made in hydropower, initially from Thailand, but later also from Vietnam and Cambodia (Smits, 2011).

Unfortunately, the initial excitement and anticipations went well beyond realities on the ground (Freeman, 2001). Unmet expectations, combined with the Asian Financial Crisis, caused a sharp reduction in FDI in the mid to late 1990s (Andersson et al., 2009; Chansomphou & Ichihashi, 2011). The market-based reform program also encountered significant turbulence in the 1990s. This was first due to a slowdown in business liberalisation following the death in 1992 of the program's main supporter, Prime Minister Kaysone Phomvihane, and later due to macroeconomic instability caused by the Asian Financial Crisis in 1997-1998 (Freeman, 2001). Foreign investors found themselves bogged down in systematic inadequacies and a range of obstacles in the Lao business environment (Freeman, 2001).

At the time of the Asian Financial Crisis (AFC) Thailand had become the main trading partner and investor in Laos. The financial crisis in Thailand spread to Laos – with a widespread loss of confidence (St John, 2006b). This loss of confidence severely hurt the Lao economy with the local currency (the Kip) in free-fall, triple-digit inflation, and negative economic growth (Freeman, 2001; Kyophilavong & Toyoda, 2008). During this period many of the foreign investors that entered Laos in the early and mid-1990s failed in their business undertakings (Rehbein, 2005). The economic trouble, combined with the poor track record of foreign investors in Laos at the time, would be followed by a sharp

reduction in foreign investment inflows (Andersson et al., 2009). This trend was further amplified by a slowdown in the economic reform program and closer ties between the LPRP and neighbouring authoritarian regimes (Pholsena, 2005; St John, 2006a); making the Lao business environment less welcoming for foreign investors (Freeman, 2001). In 1999 transfers (mainly from family members) from abroad, would be the single most important source of income in the Vientiane Valley representing 28% of all household earnings (Lintner, 2008).

Reform and conditions would only start to improve after the LPRP government sought the IMF's assistance, and gained tighter control over fiscal and monetary policies (Rosser, 2009; St John, 2006b). FDI would in particular regain momentum in 2004, with estimated FDI inflows of US$ 950 million in 2007, from a low of USD 50 million after the Asian Financial Crisis (Andersson et al., 2009; Kyophilavong & Toyoda, 2008). Trade liberalisation would continue – and Laos entered ASEAN in 1998 and the WTO in 2013 (Chheang & Wong, 2014; Leung et al., 2010). Due to limited integration with global financial markets, the Global Financial Crisis (GFC) in 2008 largely bypassed Laos (Djité, 2011) – with stronger economic growth rates quickly regaining momentum (Chheang & Wong, 2014). Laos now represents one of the most decentralised economies in the sub-region (Djité, 2011).

In recent years migration has also reversed with an increasing number of Chinese and Vietnamese moving to Laos; with Vietnamese especially settling in Southern Laos and Chinese in the North (Lintner, 2008). Lack of employment opportunities in China, overpopulation in Vietnam, and enterprise prospects following the construction of a major connecting road from China through Northern Laos have all contributed to these migration trends (Lintner, 2008).

In summary, as can be seen from this review, Lao history is marked by changes; the people of Laos have been forced to adopt, migrate and change their livelihoods due to conflict, instability and radical political and economic changes. The historical changes and developments to some extent mirror those of China; with civil war, communist takeover, political and economic centralisation, and later economic reform – just within a shorter timeframe. That is, the uncertainties caused by changes in Laos seem to exceed those which contributed to making social capital an all-encompassing factor in Chinese society.

Lintner (2008) illustrates the rapid changes through the example of three apartment blocks in the vicinity of Vientiane's airport. They were initially built in the early 1970s to accommodate the CIA and other American advisors, were taken over by Soviet technicians in 1975, and have now been converted into a hotel mainly servicing Chinese clientele.

In Fry's (2006) paper on 'The Third Transformation of Lao Industrial Relations', it is argued that the Laos has not merely gone through significant changes – but rather transformations. While the paper focuses on the Lao labour market; the findings to a large extent relate to Lao society as a whole. The first transformation, according to Fry (2007), happened during the transition from French to the Royal Lao Government rule in 1954. The second transition took place after the communist takeover in 1975, and the third is the current transition to market based economics. All of which amounted to rapid political changes that are likely to have created a great deal of uncertainty which, like in China, could very well have motivated people to rely on social capital as a solid rock in a stormy sea.

## 3.9 Lao institutions and legal systems

In the previous chapter it was argued that Chinese social capital, or *guanxi*, partly is an artefact of weak formal institutions (Dunning & Kim, 2007; Wong et al., 2007; Yeung & Tung, 1996; Yi & Ellis, 2000). Personal connections and networking has traditionally been used to provide certainty and compensate for deficiencies in the Chinese legal system (Carlisle & Flynn, 2005; Dunning & Kim, 2007). Despite the introduction of legal codes governing business in China since reform commenced, Chinese business legislation remains vague and government officials who hold positions of power remain the key to many transactions (Grainger, 2006). In the following an examination of the Lao legal institutions will take place. This will be done in order to determine if similar reasons to rely on social capital (as opposed to formal institutions) could exist in Laos.

The legal environment in Laos has gone through major transformations. It has been a mixture of French, Soviet, Chinese and Vietnamese legal systems. After the takeover of the LPRP government in 1975, the Lao constitution and laws were abolished (Fry, 2007); something that was followed by a period of constitutional vacuum (between 1975 to the

late 1980s) where Laos lacked a formal legal system. Usa (2007) identifies a Lao phenomenon of bureaucratic stratification, where Buddhist practices and traditional royal customs provides the foundation for Lao institutions; this was ensued by an overlay of French influence (1890-1954) from the period of colonial rule where French language and administrative processes were introduced. In the period after independence, Lao bureaucratic patterns would receive influence from the United States of America (1954-1975) with many bureaucrats trained by Americans. After the LPRP takeover, a new layer of bureaucracy would be introduced heavily influenced by the communist guidelines of the Soviet Union and North Vietnam. All of which amounts to significant changes, that are likely to have encouraged Lao people to rely on durable and trusted social capital networks (as an alternative to formal institutions and legal frameworks). This is supported by Michailova & Worm (2003) and Verhezen (2012) argue that tight personal relationships are inevitably reinforced in contexts where people are not protected by law – and by Dunning and Kim (2007) who argue that people in societies with underdeveloped institutions are likely to rely on informal structures for security and certainty.

In the last 20 years the Lao government has taken steps to overcome some of the institutional complexities – as this was found to be important in order to attract foreign investments (Freeman, 2001; Fry, 2007; Gunawardana & Sisombat, 2008). A new constitution was adopted in 1991 (Fry, 2007); and Usa (2007, p. 38) explains Laos with the introduction of a court system in 1990 started a slow process of:

  *"...moving away from the arbitrary use of power toward the rule of law."*

In the 1990s a number of legislative improvements were introduced (Gunawardana & Sisombat, 2008; Khouangvichit, 2010; St John, 2006a). While foreign investors must seek arbitration prior to legal action – a commercial court was established in 2003 which began operations in 2005 (Usa, 2007). Further legislative efforts took place to the extent where Laos now officially has a relatively liberal investment regime which allows 100% foreign ownership in many industries (Gunawardana & Sisombat, 2008).

In spite of these improvements, Laos endured 16 years of judicial vacuum – and the legislative advancements that have taken place since have been a slow process; significant inadequacies in the Lao legal system still exist, including red tape, room for interpretation and lack of transparency (Gunawardana & Sisombat, 2008). In 2012 Laos' position on the

World Bank's global competitiveness ranking was 165th (Chheang & Wong, 2014) – and The World Bank (2014c) identifies a number of inhibiting factors for business in Laos (in particular in the areas of starting a business, dealing with construction permits, property registration, payment of tax, cross border trading, contract enforcement and getting access to electricity). All these factors points toward a possibility that personal connections and social capital could be used in Laos to compensate for legal and institutional deficiencies (similar to what happens in China and many other countries).

In Gunawardana & Sisombat's (2008) paper on foreign investment laws and regulations, a number of legal constraints were identified in Laos. These include unclear regulations comprising of a mix of different law styles, inefficient legal infrastructures and vaguely defined dispute arbitration and mediation regulations. For example, foreign investor incentives like tax and import duties exemptions are not reflected in the customs or tax law (Gunawardana & Sisombat, 2008)**.** Gunawardana & Sisombat furthermore argue (2008) that many areas of business and finance are not yet covered by viable regulation. This includes state owned banks that suffer from low standards for credit worthiness, ineffective guidelines, and lack of regulatory supervision – something that is likely to encourage the development of social capital and connections among lenders and borrowers. These findings are echoed by Chheang and Wong (2014) who argue that judicial reform in Laos is yet to make significant progress; and that one of the key challenges for Laos is to build sound institutions and to foster a better business environment.

Djiet (2011) argues that the very large informal economy that exists in Laos can be traced back to a lack of institutions to effectively regulate the economy. This assertion is supported by the National Human Development Report for Lao PDR (UNDP, 2006) where it is argued a substantial part of Lao's international trade is not taxed, or counted, or for that matter generating revenues for the state. Informal international trade was in 2006 a result of (UNDP, 2006, pp. 24-31):

- The fact that a large part of the Lao population lives in border regions with easy access to informal import/export, and because of the complex Lao trade policy and its implementation. Furthermore, a great deal of particularism is applied in regard to widespread tariff reductions and exceptions (with up to 50 % of imports exempt

from tariffs for a variety of reasons). At the same time, up to 90% of export royalties and taxes were not collected in 2003-2004.

- Complex export procedures on the provincial levels; for example furniture exports from Vientiane require 27 stamps form various departments before export can take place.
- Bureaucratic processes that encourage informal trade. An example of this is the import plans which must be submitted for goods (that does otherwise not require technical approval or import authorisation) to the provincial trade unit and the Lao One Stop Service. Here import plans must be submitted six months to one year in advance – and the importation of some common goods require special import permissions from up to four different ministries.

The above discussion illustrates some of the Lao institutional inadequacies that hamper economic transactions and encourages the informal economy to flourish. More importantly, if businesses in Laos cannot rely on a conductive business environment supported by sound institutions – then it is plausible that people rely on personal connections instead. This assertion is supported by Stuart-Fox (2010, p. 174) who explains about Laos:

*"One gains advantage through favour of someone in a superior position in the social hierarchy, while those in superior positions increase their social power and wealth through expanding the network of those dependent upon them. The more powerful one's patron, the greater one's own power and prestige. For a patron to build a power network he must have resources to disburse, most commonly access to the resources and power of the state. Examples of patronage range from intervention to secure a job or win a court case to the bestowal of monetary benefit in the form of access to resources, awarding of contracts, reduction of taxes, provision of loans and so on."*

Putnam (2001b) identifies two alternative avenues to social order; that of institutional enforcement and that of social capital. Considering the legislative limitations identified in Laos, it is plausible that the people of Laos may have filled a judicial vacuum with networks founded on trust, obligations, and social capital.

## 3.10 Confucianism

In the previous chapter it was argued that Confucianism is one of the factors that helped sculpt the Chinese version of social capital (Banfe, 2011; Hitt et al., 2002; Wright et al., 2002). A key factor in Confucianism is the belief that people are part of a larger network of mutually dependent relationships (Hitt et al., 2002) – and in China this is manifested in the significance of networks, interpersonal relations and social capital (Park & Luo, 2001). In the Confucian system, harmony, stability, and social order depends on clearly defined hierarchical relationships and social guidelines (Dunning & Kim, 2007; Hammond & Glenn, 2004).

Confucianism has been an influential philosophy for thousands of years in China, Japan, Vietnam, Korea, Taiwan, Singapore, and Hong Kong (Minh Chau, 1996). However, even though the Lao people originated from China sometime between the 8th and the 13th century (Lee, 2008; Usa, 2007) – the limited literature on the topic appear to indicate Laos is not a Confucian society (Minh Chau, 1996). According to (Stuart-Fox, 2010) and Leung et al. (2010) Laos (together with Cambodia, Thailand and Burma/Myanmar) derive its cultural values from India rather than China. The lower Mekong Region, of which Laos forms part, is heavily influenced by Theravada Buddhism, in particular the elements of Karma and rebirth. According to Stuart-Fox (2010) a central belief in this region is that:

*"No one can escape karma's natural moral law: one's deeds will inevitably be rewarded or punished, whether in this lifetime, or the next, or the next."*

Stuart-Fox (2010 p. 173) provides an example of this mindset from Cambodia, which shares many beliefs with Laos. Here Stuart-Fox (2010) claims the locals lack interest in the trial of Khmer Rouge war criminals as they unavoidable will receive justice through karma.

Much like in Confucian societies, although for different reasons, Laos displays a high level of power distance. For Theravada Buddhists, people are not supposed to be equal, due to the fact that one's position in society is determined based on the principle of karma and rebirth (Stuart-Fox, 2010). By the same token, people in a position of power have earned that right through previous lifecycles, and if the power is used wisely, it can further increase their karmatic merit (Stuart-Fox, 2010).

In Confucian societies like China, high power distance supports harmony and social order, and people in a position of power and authority are supposed to assist people who are disadvantaged (Dunning & Kim, 2007). This again explains the *guanxi* tradition of linking people of unequal rank; where the weaker actor receives more significant favours than what is returned (Wong et al., 2007; Yeung & Tung, 1996). In a similar fashion, and although Laos is not a Confucian society (Minh Chau, 1996), it is plausible that powerful actors may be encouraged to assist people who are disadvantaged to increase their karmatic merit. This is something that will be investigated during the research.

## 3.11 Collectivism

Another building block of social capital in Chinese society is the idea that collectivism should take precedent over individual interests (Banfe, 2011; Dunning & Kim, 2007; Hwang, 1987; Lin & Si, 2010; Xiao & Tsui, 2007). Hofstede (2007) identified the cultural dimension of collectivism as the degree to which people are integrated into strong, cohesive in-groups. Basically, people living in collectivist societies are deeply embedded in the social fabric of which they are part (Dunning & Kim, 2007; Hwang, 1987; Szeto et al., 2006; Xiao & Tsui, 2007) and that reinforces the need for social capital. According to Hofstede's (2007) research, all Asian countries scored high in collectivism, something that suggests social bonds and relationships, or social capital, is likely to be an important factor in Lao society. Collectivism as a contributing factor to Lao social capital will for these reasons form part of the research.

## 3.12 Power distance

Hofstede (2007) identified the cultural dimension of power distance as the extent to which an unequal distribution of power is accepted among less powerful members of a society. Literature from China suggests high power distance contributes to (linking) social capital in this country (Banfe, 2011; Dunning & Kim, 2007; Hitt et al., 2002; Park & Luo, 2001; Yeung & Tung, 1996). Basically, the more power distance that exists in a given society, the more people are in a position to help weaker members of their networks (and thereby gain face).

While Hofstede (2007) did not include Laos in his research, strong indications suggests high power distance is a force in Lao society. For example, Usa (2007) argues that the people of Laos seem content with unequal distribution of power. Usa (2007, p. 39) argues that:

*"Even when communist leaders were unceremoniously dumped in Eastern Europe, vigorously challenged in the Soviet Union, and confronted by students in China, communist leaders in Laos retained their hold."*

While this can partly be explained by the fact that the LPRP government has been fairer and more balanced than most of its socialist compatriots – it nevertheless suggest a high level of power distance is an integrated part of Lao culture. This assessment is supported by Stuart-Fox (2010, p. 173) who argues Theravada Buddhism underpins high power distance; that the social position a person holds has been earned through karma accumulation in previous lives:

*"People are born unequal and karma explains why."*

Much like in China, Lao in a position of power are supposed to assist others; when powerful actors support weaker members they will increase their karmatic merit and their social power by crafting a network of people dependent on them (Rehbein, 2007; Stuart-Fox, 2010). All of which makes it plausible linking forms part of Lao social capital (and this will be further investigated during the fieldwork in Laos).

## 3.13 Social capital in Laos

In the previous chapter an overview of the social capital literature was provided. Here it was established that social capital exists in relationships between actors, that it has value, and that it can be used to accomplish things (Bourdieu, 1986; Carlisle & Flynn, 2005; Chen, 2005; Coleman, 1988; Hitt et al., 2002; Latham, 1997; Lin & Si, 2010; Lin et al., 2001; Szeto et al., 2006).

As previously discussed, there is currently no literature on the topic of social capital in Laos – a gap in knowledge this research aims to close. However, a number of indicators have in this chapter been identified that makes it plausible social capital is an important

factor in Lao society. These indicators include uncertainty caused by rapid changes in Lao society, primitive (legislative) institutions, collectivism and high power distance – all factors that in other contexts have encouraged people to develop strong social capital. While no literature currently exist on Lao social capital, some studies have been undertaken which enhances the plausibility that social capital is an important factor in Lao society (and that provides clues about the nature of social capital in Laos). These will be discussed below.

Rigg, Bouahom, and Douangsavanh (2004) conducted research into the Northern Lao labour markets. Rigg et al. (2004) found ample evidence that communities in Northern Laos would assist members with no land; where needy families could either borrow land from others for no payment – or where they could be allocate unclaimed land by the village headman. However, in order to draw on the community based support systems, one would need to be a long-term member of the community. Newcomers to a given community would not have access to these support systems. In light of the social capital discussion, this suggests that bonding social capital (based on strong community ties) is evident in Laos. Bridging social capital, where the gap between actors from different communities can be bridged, was in Rigg et al. (2004) research less apparent. It would take a long time for a newcomer to be fully accepted into the bonding community and hence be able to access the community support-systems. This is similar to the concept of *guanxi* in China, where social capital takes time to develop (Grainger, 2006; Park & Luo, 2001; Yeung & Tung, 1996).

In research conducted by Rehbein (2007) the phenomenon of Lao social capital is mentioned - and a number of social relationships were identified which can be examined in the light of the social capital discussion. Rehbein (2005) argues that social relations are important in Lao society – and that the Thai-Lao ethnic group (Lao Loum) traditionally have had the necessary social relations to hold positions in economics and politics in Lao society. For example, almost all members of the Lao political elite are related on each other - and marriage or family connections are almost exclusively the only way into the elite. Rehbein (2005) documents that even when diligent people climbs the economic ladder into the new Lao middle class and gain a powerful position (that would normally be reserved for the elite) they are still excluded from many areas. Again, while Rehbein (2005) only mentions social capital, his findings provides clues for the social capital

discussion (suggesting bonding social capital is an important factor in Lao society). This is supported by Evans (1990) who argue solidarity in Lao villages prevails over outside allegiances – and by Usa (2007, p. 42) who provides a quote from Kaysone's (former Lao Prime Minister) report to the Fourth Party Congress in 1986 where he talks about officials who gave*:*

*"Preference only to (their friends) or those from the same locality or race; paying attention to only their birth origin, habits and one particular sphere of education."*

This reference provides another good example of bonding social capital, which is made up of closed networks in homogeneous groups, and which may include family, friends, and ethnic enclaves (Lin, 2008; Putnam, 2005; Turner, 2007; Woolcock & Narayan, 2000). The probability that bonding social capital is an important factor in Lao society, is furthermore supported by Lintner (2008) who argues that the country's wealth remains in the hands of a relatively few (all of whom belong to/are relatives of the ruling state). This finding is furthermore supported by (Stuart-Fox, 2010), who argues that networks in Laos are based around family, regional origins and revolutionary backgrounds.

While the above studies suggests bonding is an important factor in Lao social capital, one study was discovered (within the limited literature on Laos) which suggests bridging social capital occurs as well. This study was conducted by Bourgoin, Castella, Pullar, Lestrelin, & Bouahom's (2011) who identify the gap between insiders (villagers) and outsiders (research team) as a systematic research and advisory obstacle. Basically, villagers were reluctant to provide accurate information on agricultural practices, as they feared collected data would be used to increase taxes or lead to the enforcement of other government policies. Only when trust had been established, and only when villagers understood the true nature of the project (aimed at increasing sustainable land use), would accurate information be provided. While this study did not focus on social capital, the findings nevertheless provide some clues for the social capital discussion, as that the gap between researchers and villagers could be bridged through the establishment of trust. A key focus of this project is to investigate how trust and bridging social capital can be established (knowledge that can be used by researchers, aid organisations, or private investors to ensure cooperation and project development).

## 3.14 Summary – introducing Laos

While research into Lao social capital (prior to this research) was non-existent – this chapter have examined a range of Lao literature and identified a number of indications that social capital is likely to be a strong force in Lao society. Most of the factors that made *guanxi* an all-encompassing factor in Chinese society, with the exception of Confucianism, also appear to prevail in Lao society. The understanding of Lao society and culture, developed through the review of existing knowledge, provided a good starting point for the research that was to be undertaken in Laos.

# Chapter 4 - Methodology

This chapter will outline the research design for the study. The aim of the study is to build theory from fieldwork that will examine professional practices by actors in the field. The study will lead to an understanding of the form and use of social capital in Northern Laos (for both academia and practice alike). In the following a suitable research methodology will be identified. Bailey (2007) argues a good researcher carefully considers the validity of a study long before entering the field. To ensure the ultimate findings will be of a high standard, a key focus of this chapter is to review methodological options and to provide strong arguments for the chosen methodology.

It will be documented that interpretative structured-case will present the best methodology to explore the concept of social capital in Northern Laos – and justification for the validity of the ultimate findings from the outlined methodology will be made.

## 4.1 Social capital research methods

Social capital is a sociological concept used in business, economics, political science, sociology, public health, and organisational behaviour; a phenomenon that over the last twenty years has witnessed a large expansion in research (Lin & Si, 2010). Identifying universal research methods for social capital is unfeasible due to the many sociological fields and situations in which it can be studied. The phenomenon exists in many settings, develops in many different ways, and in all societies (Chou & Lin, 2007b; Latham, 1997). Hence, scholars, from different disciplines and areas of research, have used a variety of methodologies to research the concept – including qualitative, comparative, and quantitative methods (Lin et al., 2001; Putnam, 2001b). For these reasons, Lin et al. (2001, p. viii) argues that:

> *"Research on social capital must be a multimethod, multilevel, and multisite enterprise."*

Yin (2009, p. 24) defines research design as "the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of study". That is, a well-thought

of research design provides clear links between the research questions, the collected data, and the ultimate conclusions (Yin, 2003). Shakir (2004) argues that many different qualitative and quantitative research methods exist; with no single method inherently superior to another. Rather, the research methodology should be determined based on the topic being investigated, current knowledge of the subject, as well as a weighting of the strengths and weaknesses of different methods (Shakir, 2004). In this chapter a suitable research methodology, based on these evaluations, will be identified.

## 4.2 Qualitative research

Neuman (2006) states that all social researchers seek to explain social life through the systematic detection of patterns in collected data. Neuman (2006) states the key difference between qualitative and quantitative research lie in the nature of the information collected. Where quantitative researchers focus on hard data (i.e. numbers); whereas qualitative researchers focus on soft data (e.g. words, impressions, symbols).

Considering the unique circumstances of the research undertaken in Laos, where new territory were explored, a research design that could accommodate the flexibility needed in this context was required. For that reason, a qualitative methodology was deemed appropriate for the research in Laos. As a result of the lack of literature on social capital in Laos, it was critical that the study could pursue evolving themes, and that interviews had the flexibility to pursue leads identified by respondents. Additionally, the level and depth of information required, the need to reflect and interpret on the practices of actors, and the characteristics of researching one of the last frontiers in the world, all support a qualitative methodology for this study. It is unlikely that the phenomenon of social capital among FDIs in Northern Laos could be understood through a series of standardised questionnaires. The knowledge on which to design a questionnaire simply did not exist.

## 4.3 Triangulation

This study will employ methodologies based on the advice of Robert Putnam, one of the most influential researchers on the topic of social capital. Putnam (2001b) argues that reliable measurement tools on social capital is still a far way off. He goes on to

recommend that research into the field follows a triangulation approach, where different measures of social capital are used to identify trends and thematic patterns.

Triangulation is a technique traditionally used by sailors and surveyors to identify a location by observing something from different angles (Neuman, 2006). In social research, triangulation is used to examine something form several angles in order to identify all aspects of a given topic (Neuman, 2006; Shakir, 2004); something Bailey (2007) argues greatly enhances the validity, generalisability, and trustworthiness of the ultimate conclusions. Putnam (2001b) compares his research methods (of triangulation) into social capital with those employed by students of global warming – and argues that students of global warming examine many different sources of imperfect evidence. The idea being that if the same basic story is being told from a sufficient number of sources like satellite surveillance, records from the British Admiralty, tree rings, glaciers, and from the ice cores of the Antarctic, then these stories combined will make the claim that global warming is real more robust (Putnam, 2001b). This in spite of the fact that each of these measures on their own may not prove a thing.

Since the publication of Putnam's (2001b) paper, no consensus on definitions and measurements on social capital have been reached. For that reason Putnam's (2001b) advice will be followed, and triangulation will be employed for this study. Triangulation will be used in the form of a multiple-case study and a range of data collection techniques; something that will enable the phenomenon of social capital in Northern Laos to be examined from many angles. Similarly to the research into global warming, if the same basic story about social capital is being told form a sufficient number of cases and data sources – then this will lead to a strong claim for the ultimate conclusions.

## 4.4 Interpretative research

Like many other qualitative research projects (Neuman, 2006) this research will take the form of an interpretative study. Neuman (2006) explains insights rarely are obvious on the surface – and that understanding in many instances can best be reached through interpretation of the many parts that makes up a given issue. According to Neuman (2006, p. 88) interpretative research is useful in exploratory research and can be defined as:

*"The systematic analysis of socially meaningful action through the direct detailed observation of people in natural settings in order to arrive at understanding and interpretations of how people create and maintain their social worlds."*

Peirce (2006) advises interpretive research is used to understand human actions within communities of practitioners. This is paralleled by Lee (1991) who proposes interpretive research involves the understanding that the researcher develops through interpretation of the participants understanding of a given situation – and by Walsham (2006, p. 320) who quotes Geertz (1973) as summarising the interpretative understanding as:

*"What we call our data are really our own constructions of other people's constructions of what they and their compatriots are up to."*

That is, interpretative research is fundamentally concerned with meaning (Neuman, 2006), and this research will seek to develop meaning and understanding of the use of social capital in Northern Laos. In particular, this study will be an exploratory investigation, from the point of view of FDIs in Northern Laos, into the factors that are relevant and meaningful for the use of social capital in this unique environment.

## 4.5 Case study

Merriam (2002) argues a range of approaches can be taken to an investigation under the interpretative stance. This research will employ a case study methodology to investigate the form and use of social capital among FDIs in their interactions with locals in Northern Laos.

Hamel Dufour & Fortin (1993) argues that a case study is a detailed investigation of a phenomenon. Stake (1995) elaborates case studies are ideal to capture the complexity of a phenomenon within its unique circumstances. Gillham (2000) argues case studies can have an enormous impact and illustrates this through the example of legislative changes caused by the death of a vulnerable child – or in medicine where extensive findings from clinical trials may be thrown into uncertainty by a single GP who observe serious side effects of a new drug.

Regrettably, the term case study has often been seen as a definitional swamp (Gerring, 2004). The debate is broad – and case study research has been referred to as a method, a methodology, a research strategy, a design, and a data collection procedure (Brown, 2008; Gerring, 2004; Kildea, 2005; Merriam, 2002; Stake, 2008). While this methodical debate is acknowledged it will not be a focus of this thesis. As will become clear in the following, given the unique circumstances of the investigation in Northern Laos, a case study is the most suitable approach for the proposed research. Yin (2009, p. 8) suggests that the design of any social science research must be based on:

*"(a) the type of research question posed, (b) the control an investigator has over actual behavioural events, and (c) the degree of focus on contemporary as opposed to historical events."*

Yin (2009) elaborates that case studies are the ideal option to answer explanatory "how" or "why" questions (i.e. how FDIs build and use social capital and why they engage in certain activities); that case studies are useful when the researcher has little control of events (i.e. investigate and interpret, as opposed to manipulate, FDIs use of social capital); and when contemporary events are being studied within its real-life context (i.e. understanding the form and use of social capital through observations and interviews). Yin (2009) states that case study research is widely used in social sciences when the above criteria are met.

This is echoed by Kim (2007) and Kildea (2005) who argue case studies are useful when describing a complex social phenomenon within its real life context (i.e. the use of social capital among foreign investors in Laos). Eisenhardt & Graebner (2007) argue that case study research can provide rich empirical understanding of a phenomenon within its real-life context; and that it involves the study of one or more cases with the purpose of recognising patterns of relationships within/across cases in order to create theory. Peirce (2006) argues that the essence of case study research is to engage with practitioners and their communities; something that was a key feature of the fieldwork in Laos.

Eisenhardt (1989) suggests that because the case study methodology does not rely on previous literature or empirical evidence – theory building from case study research is useful in situations where little is known about a phenomenon. This is supported by Benbasat, Goldstein and Mead (1987) who argue case study research is particularly suited

for theory that is in its early formative stages; a criteria the research in Laos fits perfectly. Basically, case study research is a well-established research methodology in the fields of social science, that can effectively identify concepts and gain insights in under-developed research fields, and that can be used as an instrument for theory building (Peirce, 2006). While it is difficult to generalise the findings from a single case-study (Freeman, 2007; Shakir, 2004; Stoecker, 2005; Yin, 2003), conducting and comparing more case studies will generally limit this difficulty (Freeman, 2007; Stoecker, 2005; Yin, 2003). Yin (2003) distinguishes between single and multiple case study designs; and move on to argue that given a choice, the multiple case study is the preferable option, as the findings are more robust and generalisable.

Based on the above discussion, and due to the fact this research is aimed at building theory from a poorly understood contemporary phenomena over which the researcher has no control, a case study methodology has been deemed appropriate for this study. Essentially, the case study methodology will allow the researcher to let interviews move in directions raised by the respondents and to pursue emergent themes (Eisenhardt & Graebner, 2007). A case study approach, with its associated flexibility is furthermore appropriate, because there is a lack of valid social capital measurements and because of the organic nature of data collection and analysis needed for research in this new frontier. Furthermore, a multiple-case study will be used, as this will enhance the robustness and generalisability of the findings (Yin, 2012).

Yin (2009) takes a very practical approach to case study research – and has developed a comprehensive methodological outline for the discipline. Yin (2009, p. 27) lists five components of case study design as:

- "a study's questions;
- its propositions, if any;
- its unit(s) of analysis;
- the logic linking the data to the propositions;
- and the criteria for interpreting the findings."

The form of the study questions will largely determine the best research design to be used in a given study (Yin, 2009) – and as previously explained, case studies are the ideal

option to answer explanatory "how" or "why" questions (i.e. how FDIs use social capital in Laos and why they engage in certain social capital activities).

The propositions in case study design relates to clarifying the issues that should be studied to ensure the study has a clear focus and that it moves in the right direction (Yin, 2009). The propositions for the first case study in Northern Laos were the initial conceptual framework that was developed through the literature review. The propositions for later case studies will be based on the same conceptual frameworks (revised to take into account findings from case studies already conducted in Northern Laos). This approach will be explained shortly.

The units of analysis relates to the cases that will be studied based on the propositions discussed above (Stake & Savolainen, 1995; Yin, 2009) – and for this research the unit of analysis will be FDIs operating small businesses in Northern Laos. Yin (2003) argues that case-study research must adopt a flexible approach and at times the unit of analysis will extend to FDIs' associates (i.e. staff, suppliers and customers).

The final two steps, linking the data to propositions and the criteria for interpreting the findings, relates to the data analysis (Yin, 2009). More detail of the analytical processes will be provided later in this chapter.


## 4.6 Interpretative structured-case study

It has now been established that case studies can be an efficient tool in theory building when exploring new territory. Limitations associated with case study research, includes a research process that often comprise a poorly understood path of vague research themes, and masses of data that is difficult to handle systematically (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012). In order to overcome this limitation, an interpretive structured-case methodology has been chosen for this study. Interpretive structured-case is an extension of existing case study frameworks that provides a clearer and more coherent research structure for theory building; something that will ensure clear links between data collected and conclusions drawn (Caroll & Swatman, 2000; Koeglreiter et al., 2012).

Interpretative structured-case was initially developed for research in the field of information systems in the late 1990s – as a tool to effectively organise and manage theory development in this emerging branch of learning (Caroll & Swatman, 2000). Since Lao social capital is an emerging field in need of theory development, interpretative structured-case is well-suited for this project and environment. According to Caroll & Swatman (2000) and Koeglreiter et al. (2012), interpretative structured-cases comprise three main elements: a defined conceptual framework, a number of research cycles and a literature scrutiny of the theory built. Each of these elements will be explained below.

## 4.6.1 The conceptual framework

The conceptual framework outlines the main areas of interest to be studied (Caroll & Swatman, 2000) and is an important part of case study research (Eisenhardt, 1989). Stake (1995, p. 15) argues any study requires:

*"Conceptual organization, ideas to express needed understanding, conceptual bridges from what is already known, cognitive structures to guide data gathering, and outlines for presenting interpretations to others."*

The conceptual framework summarises the current understanding of the phenomena being investigated – and it sets out the territory to be explored (Gengatharen, 2006). As previously explained, this research intends to use a combination of generic social capital theory, combined with social capital theory from China, as a benchmark to guide the research into Lao social capital. The conceptual framework was developed based on the examination of the social capital and *guanxi* literature that was undertaken in chapter two (and can be viewed in Table 2.1 and 2.2). The task will be to collect the data set forth by this framework to ensure a clear focus throughout the fieldwork. Yin (2009) refers to the strategy of using a conceptual framework as 'relying on theoretical propositions', and argues it is an important case study tool that directs the data collection, guides the analysis, and assists in identifying relevant data.

## 4.6.2 The research cycles

Now that the conceptual framework has been rationalised, the second main element of structured-case is the research cycles (Caroll & Swatman, 2000; Koeglreiter et al., 2012).

Basically, the broad research themes which were defined in the conceptual framework, will through a number of research cycles be further and further refined. This is illustrated in Figure 4.1. Each research cycle will be based around a case study (or for this research, around FDIs and the associated businesses in Northern Laos). This continuous refinement of the research themes through a number of cases will ensure trustworthiness and generalisability through triangulation (Bailey, 2007).

**Figure 4.1 Interpretative Structured-Case Research Model (adapted from Caroll and Swatman, 2000, p. 240)**
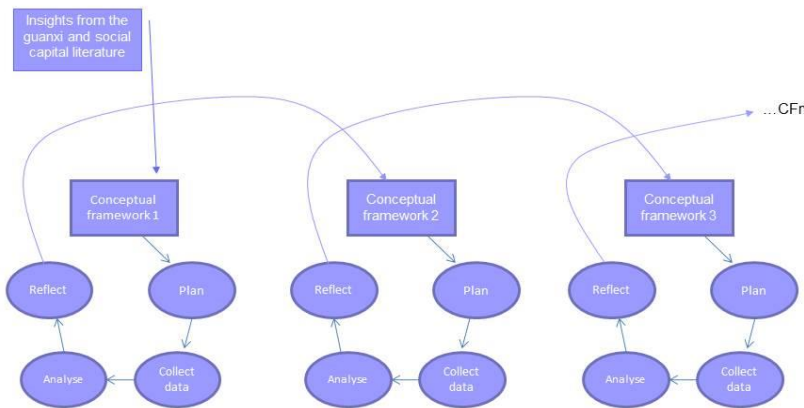


At the end of each research cycle, the conceptual framework/the current understanding of the phenomena will be critically examined to incorporate new knowledge arising from the study and the extant literature (Caroll & Swatman, 2000; Koeglreiter et al., 2012). The revised conceptual framework then forms the basis for the next research cycle that will further refine the framework. This research process will continue until a theory on Lao social capital can be developed. This research method is supported by Yin (2009), who refers to this process as the analytical technique of 'explanation building'. The central idea being that an explanation can be built about a case by comparing research findings against an initial conceptual framework, by revising the conceptual framework to match new discoveries, and by repeating this process until a point of data saturation ultimately is reached.

Each research cycle comprises a clear plan (e.g. an outline of data collection and reporting methods), data collection (e.g. interviews and observations), analysis (e.g. coding and database construction), and it concludes with reflection and the development of a refined conceptual framework (Caroll & Swatman, 2000; Koeglreiter et al., 2012). Considering this research will be undertaken over a longer time period, it is possible to build rapport with actors in the field, something that will allow for better insight into the phenomenon being studied (Hatch, 2002).

Due to the cyclical nature of the structured-case, where the study will be divided into smaller segments (cases) that will be analysed individually, the amount of raw data will be greatly reduced compared to other qualitative research methods (like grounded theory). Nevertheless, each case will still entail substantial amounts of data, and analytical methods will for this project be used to process, reduce, and organise the data in order to create meaning (Caroll & Swatman, 2000; Eisenhardt, 1989). The data analysis will follow a standard procedure of organising the collected data, preparing the data for analysis, and examination of the data to find patterns (Freeman, 2007). Examination will be conducted in light of the latest conceptual framework, with the raw data coded around the major themes of this framework. Due to the qualitative nature of the research the author will have an in-depth understanding of the documentation, the environment in which the data was collected, and any specific influences that may have impacted a given respondent – all of which will assist in the interpretation processes.

Reflection forms a key part of data analysis in interpretative research (Caroll & Swatman, 2000) and it comprises a critical review of the data collected in relation to the latest conceptual framework. Caroll & Swatman (2000) cites Babbie (1989) as recommending reflection should be used to minimise the tendency of researchers to focus on accommodating data. For that reason, reflection systematically took place during and after the data analysis in each case study (and includes consultation of literature, discussions with supervisors, respondents, fellow researchers, backtracking between cases and data, as well as reviews of the research process). Although Figure 4.1 illustrates data collection and analysis as separate steps, there will be a continuous interplay between these two steps, as data analysis may identify emergent themes and open up new areas of exploration (Caroll & Swatman, 2000). This is echoed by Yin (2012) who argues data collection and analysis is an intertwined process – where the researcher must operate much like a

detective in order to pursue emergent themes and assess the relevance of data collected. Specific analytical strategies and techniques will be outlined later in this chapter.

Through analytical generalisation, the objective of this research process is to develop a theory on the form and use of social capital in Northern Laos (Yin, 2003). This theory will be built through the continuous process of revising the research themes/conceptual framework which takes place in each research cycle. At any given time, the most recent conceptual framework represents the most recent version of the theory built to date (Caroll & Swatman, 2000). When a point of theoretical saturation has been reached the researcher will stop the research cycles/the adding of new cases.

### 4.6.3 Literature based scrutiny of the findings

Of the main elements of interpretative structured-case research identified by Caroll and Swatman (2000) the final relates to a literature based scrutiny of the ultimate findings. At the very end of the research cycles, when a good picture of Lao social capital has been developed, the most recent conceptual framework will be reviewed and compared to a broad range of literature (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012). This scrutiny will move beyond the Guanxi and social capital literature, which formed the initial benchmark for the research, and it will compare findings with literature from a much broader range of fields and settings (and from that literature based scrutiny knowledge and theory will emerge). This is illustrated in Figure 4.2.

**Figure 4.2 Structured-case research cycles (adapted from Koeglreiter, Smith, and Torlina, 2012. p. 176)**
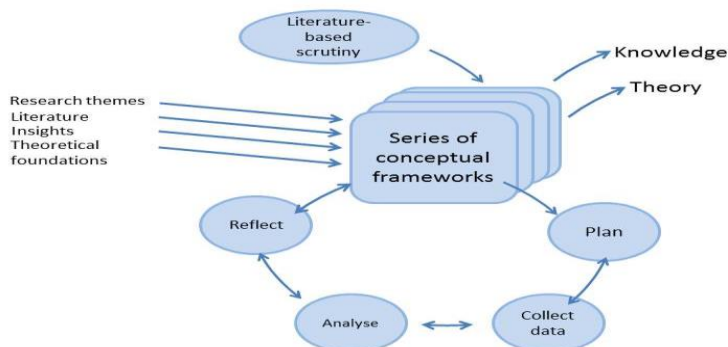
Yin (2009) argues the limited setting of case study research does not necessarily restrict the findings to that setting. Indeed, it has been argued that because the theory building process in case study research is closely tied to the data, the resulting theory will closely mirror reality (Eisenhardt, 1989). Triangulation of measures where different cases and data sources were investigated, together with triangulation of theory where other explanations were considered through the literature review – furthermore strengthened the ultimate conclusions made (Neuman, 2006).

## 4.7 Data validity, reliability and generalisability

To ensure high quality of the ultimate conclusions – a number of validity, reliability and generalisability strategies were incorporated at an early stage in the study. According to (Bailey, 2007, pp. 180-181):

*"Validity refers to studying or measuring that which one intended to study or measure. Reliability refers to the consistency of findings over time. Generalizability involves applicability of the results to the population from which the sample was drawn."*

A key aim of this methodology chapter has been to ensure integrity by arguing for the validity (i.e. the data collection was closely guided by the conceptual framework), reliability (i.e. a series of case studies were conducted over time), and generalisability (i.e. a range of respondent were included in the study and links between findings and literature were established).

Bailey (2007) suggests validity can be viewed as trustworthiness; and she encourages researchers to conduct studies in a fashion that enables readers to trust the findings. Yin (2003) argues the aim of analysis and interpretation in case study research is to develop 'a chain of evidence' that will enhance credibility by enabling external observers to follow the logic of theory development; from the original research questions to the final conclusions. The structured-case methodology, that forms the basis for this study, was selected because it provides these robust linkages. Caroll & Swatman (2000, p. 241) states:

*"Structured-case not only helps in performing the research, but also documents the links between the research themes (in the conceptual framework), data (observations*

*and interpretations in the field), the data analysis (coding using the concepts in the conceptual framework, and emergent themes) and the theory and knowledge accumulated through the research process (the series of conceptual frameworks)."*

Yin (2009) recommends a combination of analytical strategies (relying on theoretical propositions and thinking about rival explanations) and analytical techniques (explanation building, cross case synthesis, and pattern matching) to ensure validity, reliability and generalisability of case study research. A discussion of these strategies/techniques and their application for this study will be provided below.

## 4.7.1 Analytical strategies

As previously explained, the most important analytical strategy that will be used for this study is what Caroll & Swatman (2000) calls 'the conceptual framework' which guides the research and ensures validity through robust linkages between the research themes and the ultimate conclusions. This analytical strategy is supported by Yin (2009) who refers to the strategy as "relying on theoretical propositions" – where the propositions (the conceptual framework) directs the data collection and guides the analysis.

Through the construction of this thesis a clear focus has persistently been maintained on the research objectives; from the literature review where the first conceptual framework was constructed around the research objectives; through the research cycles (where that same conceptual framework was progressively refined based on discoveries made); and through the literature based scrutiny of the ultimate findings (where linkages were established between findings and theory from other situations and contexts).

Yin (2003) recommends the additional analytical strategy of 'thinking about rival explanations' – through which validity will be augmented by actively scanning for (and investigating) negative evidence. Investigating rival explanations will enhance validity as findings cannot as easily be laid-out to suit the conceptual framework (Yin, 2003). This is what Caroll & Swatman (2000) refers to as 'reflection' – and it is a strategy used to enhance trustworthiness by minimising the tendency of researchers to focus on accommodating data. For this research project, reflection systematically took place during and after data analysis – and included discussions with supervisors, fellow researchers, as well as clarifications from the literature. Furthermore, at the end of each research cycle the

advice of Gillham (2000) was followed, and findings were checked with actors in the field. An online shared-drive was created where the latest version of the emergent theory on Lao social capital was uploaded; something that enabled respondents to discuss and provide comments on the emergent theory. At times extra meetings were scheduled with respondents to investigate themes further, to check findings and interpretations, and to address matters not covered sufficiently.

As previously mentioned, reflection through the literature also formed a critical part of the verification process. At the end of each research cycles (or case study) the latest conceptual framework was reviewed in light of the extant literature in order to provide links to established social capital theory and to refine the conceptual framework for the following research cycle. After completion of the final case study, the accumulated findings and conclusions were scrutinised in a similar fashion through the use of a wide spectra of literature from a range of disciplines (to investigate whether findings from Northern Laos were replicated in other contexts or situations). Linkages between the findings from Northern Laos with the literature were discovered – something that consolidated the findings and led to a more powerful theory (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012).

## 4.7.2 Analytical techniques

Alongside the analytical strategies listed above – specific techniques was used within each of the case studies to ensure validity, reliability and generalisability. These techniques will furthermore progress the case analysis and enhance the trustworthiness of the ultimate findings (Yin, 2009).

**Explanation building.** The main analytical technique that was used for this study is what Caroll & Swatman (2000) refers to as research cycles and what Yin (2009) calls explanation building. As previously explained, the central idea being that explanations can be constructed by comparing research findings against an initial conceptual framework, by revising that conceptual framework to match new discoveries, and by repeating that process until a point of data saturation has been reached (Caroll & Swatman, 2000; Yin, 2009). During this process, data was structured and coded around the concepts in the conceptual framework, with a great deal of flexibility for new themes and categories to

develop (Caroll & Swatman, 2000). To ensure internal justification, the rationales behind changes to the conceptual framework were clearly documented.

**Cross-case synthesis.** Yin (2009) identifies cross-case synthesis as a method that ensures validity and reliability by aggregating results over a series of cases. As a result of the cyclical nature of the structured-case methodology, emergent themes were repeatedly refined and checked for reoccurrence across multiple cases, something that lead to strong ultimate conclusions (Eisenhardt & Graebner, 2007; Koeglreiter et al., 2012). Cross-case synthesis was for this research achieved through the analytical program NVivo, where occurrences of different forms of social capital (e.g. bonding, bridging and linking) were recorded within, and across several, case studies.

**Pattern matching.** The data analysis followed a standard procedure of organising the collected data, preparing the data for analysis, and examining the data to find patterns (Freeman, 2007). This, according to Caroll & Swatman (2000), forms a key part of the theory building process, where the patterns in a series of conceptual frameworks documents the theoretical rationale for the final conclusions. Yin (2012) refers to this analytical technique as 'pattern matching' where a predicted pattern (i.e. the conceptual framework) is compared to actual patterns (findings from Laos). Internal validity was strengthened, and convincing conclusions made, as the patterns over three separate rounds of research in Northern Laos largely matched (Yin, 2009).

In summary, validity, reliability, and generalisability were key considerations throughout this research. Yin (2003) compares case study research to accounting and bookkeeping, where auditors should easily be able to replicate calculations to perform reliability checks. Similarly, during this research well documented procedures were consistently followed, something that enables possible auditors to reach the same results by following the same procedures.

## 4.8 The case study database

During the fieldwork trips conducted in Northern Laos significant volumes of data was collected. After completion of data collection – the ensuing step for each of the case

studies was to make sense of the information through data analysis (Bailey, 2007). Martin Fisher cited in (Bailey, 2007, p. 127) argues:

*"Knowledge is a process of piling up facts: wisdom lies in their simplification."*

Yin (2009) argues that the case study database is an important tool to simplify the data-analysis process; one that (if used well) will dramatically increase trustworthiness of the conclusions drawn. Yin (2009) advice for a good case-study database was followed, and the data was stored in a categorised and complete manner that allows for effective retrieval by the author (or other people) at a later stage.

Yin (2009) recommends case-study notes be stored according to the major themes outlined in the case study protocol – and findings were for this project categorised in NVivo according to case number i.e. case one, case two, case three (Figure 4.3), and within each of the individual cases findings were further categorised according to the elements of the latest conceptual framework (Figure 4.4).

**Figure 4.3 Data categorisation according to case number**

Recent Projects

Case Three
case one
Case Two
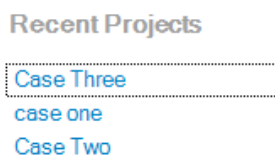
**Figure 4.4 Example of data categorisation (case two)**

| Name | Sources | References | Created On | Created By |
|---|---|---|---|---|
| Bonding | 12 | 28 | 3/05/2013 9:07 PM | BS |
| Bridging | 7 | 30 | 3/05/2013 9:07 PM | BS |
| Face | 15 | 61 | 29/05/2013 9:45 AM | BS |
| Linking | 7 | 11 | 3/05/2013 9:08 PM | BS |
| Name & Concept | 12 | 49 | 3/05/2013 9:07 PM | BS |
| Origins | 1 | 1 | 28/05/2013 10:33 PM | BS |
| Change and uncertainty | 1 | 1 | 28/05/2013 10:38 PM | BS |
| Collectivism | 3 | 3 | 28/05/2013 10:37 PM | BS |
| Legal | 7 | 24 | 28/05/2013 10:36 PM | BS |
| Power distance | 4 | 13 | 28/05/2013 10:37 PM | BS |
| R22 Background | 2 | 4 | 29/05/2013 9:48 AM | BS |
| R23_Background | 2 | 5 | 30/05/2013 8:04 AM | BS |

The NVivo program allowed data (like interview transcripts, documents, audio, and photos) to be imported – and it provided a number of tools that simplified the analytical processes. For example, the software assisted in the coding and categorising process, it allowed findings to be effectively linked to the supporting data (Figure 4.5), and it helped tabulating frequency of events (Figure 4.4).

**Figure 4.5 Example of data coding from an interview transcript (case 2)**
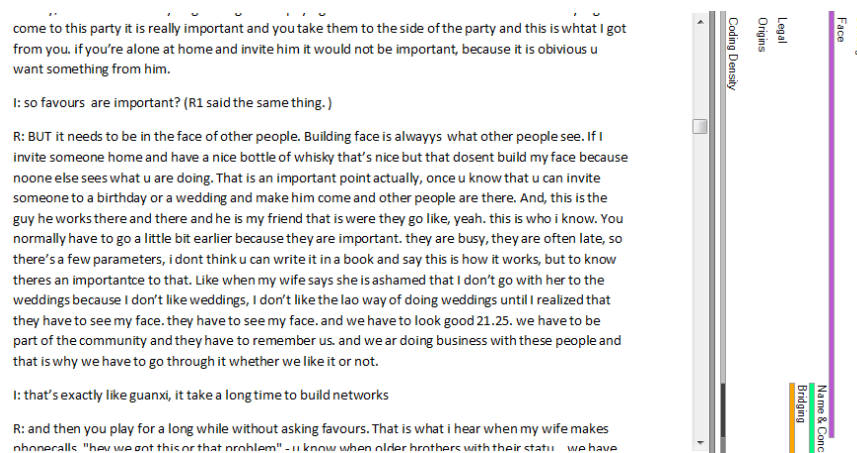


While the NVivo software proved an effective tool to break down, code, and simplify the data – it was the task of the researcher to interpret, analyse, and extract meaningful patterns (Bailey, 2007; Yin, 2009). These interpretative and analytical processes will be covered in detail through chapters five to seven.

## 4.9 Selection of participants

Neuman (2006) argues quantitative researchers selects sample units based on mathematical theory – whereas qualitative researchers select respondents based on the relevance they have to the research topic. This latter form of sampling is called nonprobability sampling and was applied for this study. The first research cycle in Laos focused on a successful foreign direct investor with whom the author has reliable connections. From there on a combination of judgment and snowball sampling methods was used to identify suitable case-studies for the following research cycles.

Given the sensitive nature of social capital (it has at times has been linked to corruption), this personalised sampling technique tapped into the trust that exist within the business

community of Northern Laos (and it enhanced respondents' comfort with the research). The selection of participants was based on the contribution to theory development respondents were deemed likely to make. A key focus was on Chinese FDIs in Laos – as they were considered the respondents with the best understanding of the similarities and differences between social capital in Laos and China.

It is acknowledged that the judgment sampling method carries a risk that a sample may not be representative of the population under investigation. During the research the outmost care was taken to minimise this limitation; the researcher maintained neutrality, carefully selected the most appropriate respondents, and asked questions in a manner that would curtail this problem. Furthermore, through triangulation the phenomenon of Lao social capital was examined from many angles to validate the findings. The idea being that if the same story emerged form a sufficient number of cases, respondents, and data sources, then the conclusions would be very robust (Bailey, 2007; Putnam, 2001a; Yin, 2009).

## 4.10 Data collection methods

Case study research may incorporate interviews, direct observations, participant observation, informal communication, archival records, documents, and physical artefacts (Peirce, 2006; Yin, 2003, 2009). Neuman (2006) refers to the process of using multiple sources of evidence as triangulation of measures – something that enhances the likelihood of seeing all aspects of a phenomenon. Any shortcomings of individual data collection methods can be minimised, if not eliminated, through the use of a range of data sources (Neuman, 2006). For that reason, the data collection in Northern Laos included semi-structured interviews with FDIs (as well as their staff, business partners, suppliers, customers etc.), direct/detached observations, participant-observations, documents/archival records, informal communication, and physical artefacts. How each of these data collection methods was used for this project will be explained below.

## 4.10.1 Observations

Observations are an important data collection technique that was used for the research in Northern Laos. According to Gillham (2000) observations comprise of watching actors, listening to actors, and at times asking clarifying questions. Observations have many

benefits, it enables all data collected to be seen in context and it assists in the development of questions to ask respondents in later interviews (Freeman, 2007). Yin (2003) and Gillham (2000) argues observations can take one of two major forms (which produce different types of data):

- Direct/detached observations
- Participant observations

**Direct observations** are conducted at the case-study sites, and serve to study the behaviours of actors from a detached point of view (Yin, 2003). Direct observations are relatively formal and analytical, in that it uses highly structured data collection where observed behaviours are categorised similar to that used in quantitative research (Gillham, 2000). Direct observations were employed during the fieldwork in Laos, where the researcher observed business transactions and social interactions conducted by FDIs and their associates.

**Participant observation** is an observation mode where the researcher is involved and participates in the activities being studied (Yin, 2003). This technique provides unique opportunities to experience the use of social capital in Northern Laos as an insider (Yin, 2003). Participant-observations are particularly useful for interpretative studies; in that it is subjective and focuses on meaning through flexible and informal methods (Gillham, 2000). For this study, the researcher worked with the FDIs being investigated, and participated in their daily business activities. When starting a participant-observation, Gillham (2000) identifies the first step as providing a general picture of the setting/what is on the surface. That is, a descriptive observation of the people, activities, settings, events and apparent feelings. The next step is to slowly move the focus from the big picture toward activities specifically relevant for the research aims (the latest conceptual framework) and to described these in detail (Gillham, 2000). The main issues with participant-observation includes limited time for note-taking (Yin, 2003); something the researcher sought to minimise through recordings of conversations and observations.

## 4.10.2 Documents and archival records

Documents and archival records is another data source that supplemented the observations in Laos. Documents and archival records can take a number of forms and may include written reports, letters, e-mails, newspaper articles, other studies of the same site, administrative documents, and computer files and records (Yin, 2009).

Through the collection and evaluation of these records, the advice of Yin (2003) was followed and the evidence was mainly treated as clues for further investigation. For example, a widespread lack of formal written documentation was observed during the research. Triangulation of measures would then later take place – where the reasons and substitutes for limited documentation were further investigated during interviews.

## 4.10.3 Physical artefacts

Physical artefacts includes any physical evidence that may assist in the interpretation of the phenomenon being studied (Yin, 2003). For example, in the Chinese version of social capital, *guanxi*, relationships cannot be sustained without accompanying exchanges of favours, benefits and gifts (Grainger, 2010; Lytras et al., 2005; Wong et al., 2007; Yeung & Tung, 1996). An important aspect of the fieldwork was to explore if similar practices took place in Northern Laos (e.g. if gifts received were on display).

## 4.10.4 Informal communication

During the fieldwork conducted in Northern Laos – relationships were often developed between respondents and the researcher. After the completion of the fieldwork, these relationships enabled ongoing informal communication to take place in person through email, telephone, and Skype. Communication notes were kept and included as part of the data collection.

## 4.10.5 Semi-structured interviews

The final data-collection technique used for this research was semi-structured interviews. Yin (2003) argues semi-structured interview is one of the most important data gathering methods in qualitative research – a method that enables the researcher to identify finer

points. Gillham (2000) explains semi-structured interviews in case studies are appropriate when small, important, and accessible numbers of people are involved; when questions are open-ended; when the topic is sensitive; and when trust is involved – all criteria the research in Laos fits perfectly. For these reasons, the approach of semi-structured interviews was used extensively during the fieldwork.

Meyers & Newman (2007) argues most qualitative researchers use interviews in a too casual manner where anything goes (often with little explanation). Based on the dramaturgical model developed by Erving Goffman in 1959, which uses drama as a metaphor to explore social life, Meyers & Newman (2007) moves on to develop a set of recommendations for qualitative interviewing. The basic idea being, that the quality of a performance on stage, or in an interview, will largely depend on the many elements that makes up the performance. That is, the ultimate quality of the data collected for this research depends on getting a number of factors right during the interviews. These factors include the stage, the script, the actors, and the entry/exit. In the following an explanation will be provided how the interviews in Laos will get the many parts of the performance right through the application of Meyers & Newman's (2007) structured interview model:

**Situating the researcher as actor** relates to the roles and the relationships between the interviewer and the interviewee (Myers & Newman, 2007). The first case study in Laos involved a FDI with whom the researcher has close personal connections. Later respondents were identified through a combination of judgment and snowball samples, where the concept of bridging social capital within the Lao expatriate community was used to establish trust. Situating the researcher also relates to clarifying the roles of all participants in the interviews, and to identify the respondents gender, age, experience, and nationalities – information which later helped validate findings and supported the analytical processes (Myers & Newman, 2007).

**Minimise the social dissonance** is a guideline that seeks to improve disclosure by reducing the social distance and minimise uneasiness (Myers & Newman, 2007). For this research, the interviewer demonstrated understanding and respect for the interviewee, and clearly explained the purpose and importance of the research. Interviewees were given the opportunity to choose the setting for interviews to enhance their comfort with the research (e.g. their business, a restaurant, or some other premise). Effective communication were

utilised whereby the interviewer kept an open mind, asked questions, showed interest, and used attending body language.

**Represent various voices** refers to the importance of interviewing a variety of people to validate findings (Myers & Newman, 2007) and relates to the triangulation used extensively for this research (and which was previously discussed). To support the analytical processes, respondents and their positions and relations to the businesses investigated was clearly documented in each of the case studies.

**Everyone is an interpreter** relates to the idea that respondents, as well as the researcher, interprets the world around them/the concepts being investigated (Myers & Newman, 2007). Here the interviewee assumed the role of the knowledgeable insider and the interviewer the role of the interested outsider (Myers & Newman, 2007). While the interviewees had a good understanding of the ways in which they develop and use their social networks – the interviewer took the role of interpreting their knowledge in the light of social capital theory.

**Use of models in questions and answers** relates to investigating the respondents world in their language (Myers & Newman, 2007). That is, during the semi-structured interviews conducted, the researcher sought to mirror the words and phrases used by respondents to minimise influence, to enable the focus to be on the interviewees' experiences, and to minimise the social dissonance. During the semi-structured interviews in Laos the interviewer listened carefully and guided the conversation based on the subject responses (as much as possible in the subjects own words).

**Flexibility** relates to the script used in the interviews. In the case of semi-structured interviews, the interviewer used only a partially completed script, and the interviewee had none at all (Myers & Newman, 2007). For that reason, flexibility and the ability to improvise was of essence. That is, the questions were open-ended, something that allowed unexpected findings, and the respondents opinions and experiences with social capital, to be explored (Yin, 2003).

**Confidentiality of disclosure** is the final interview guideline and relates to confidentiality, security and feedback. Here the researcher made sure not to misrepresent

the purpose of the research to any parties – and all respondents were presented with confidentiality agreements which enhance their comfort with the research.

In summary, the interviews in Laos were closely guided by Myers & Newman's (2007) structured interview model. Each interview was followed by a review in a quiet setting where the author would examine notes, listen to recordings, and write down impressions of interviews and notes taken.

## 4.11 Field resources

For each of the case studies conducted in Northern Laos, a number of field resources were used. These included:

-Appropriate clothing
-Watertight bags
-Laptop computer
-Consent forms
-Semi-structured questionaries
-Note paper
-Camera
-Mobile phone
-Voice recorder.

The researcher brought clothing suited for the local climate (ranging from cold in winter to hot and wet during summer). During research conducted in April, where the people of Laos celebrate Lao New Year with the *Songkran* Festival (which is an excuse for an almighty national water fight lasting for weeks), water-tight bags for electronic equipment was essential. A laptop computer, with wireless internet connection, and a copy of the NVivo software also formed an important part of the field resources. As materials were collected and interviews conducted, safety copies of the data would be uploaded to drives on the internet.

A voice recorder was used during the interviews. The voice recorder ensured accurate transcripts could later be produced. Note paper was utilised to support the interviews, and

would be used for things like contact details, to take notes about ideas to be explored later, and to draw visual explanations of topics discussed with respondents.

Paper based consent forms also formed part of the field-resources. These explained the purpose of the research, and they confirmed that the research was approved by the Edith Cowan University's Human Research Ethics Committee.

## 4.12 Summary – research methodology

In this chapter the research methodology for this study has been outlined. It was argued that the proposed interpretative structured-case methodology will present the best methodology to explore the concept of social capital in Northern Laos – and that this methodology will ensure clear links between the research questions, the collected data, and the ultimate conclusions.

A key component in the interpretative structured case methodology is the research cycles where concepts continuously will be refined. The following chapters will each be centred on one research cycle, or a case study, in Northern Laos. After a series of case studies, and when a point of data saturation emerges, the final chapters will discuss the accumulated findings and draw final conclusions.

# Chapter 5 - Case One

In chapter one an introduction and an argument for the importance of this study was made; in chapter two and three a literature review was undertaken; and in chapter four a research methodology designed to ensure validity and trustworthiness for the study was outlined.

The thesis will now move into the fieldwork phase. This chapter will briefly outline the fieldwork procedures that were used for the research in Laos – followed by a detailed discussion of the findings and analysis of the first case study (which will be presented around the themes of the conceptual framework and in light of the social capital literature).

## 5.1 Case one: planning and data collection

A number of respondents were involved in the first case study –all of whom will be kept anonymous. In this project "R1" indicates that a given extract comes from respondent one. Likewise, "R2" indicates a given extract comes from respondent two etc. A complete list of the names and codes will be kept in a secure place.

The first case study is based around a respondent (R1) who has spent twenty years in Laos, and who operates a tourism based business in the northern part of the country. In the early 1990s, and after finishing his tertiary studies in Scandinavia, R1 decided to accept an offer to teach English in return for food and accommodation in the small village of Lom Kao in Northern Thailand. During this stay Laos started a process of reforms – and in 1993 R1 made his first visit to Laos where he sailed down the Mekong River in a traditional Lao longboat. The dense jungle, immense mountains, and amazing scenery, combined with a traditional and friendly population, convinced R1 Laos had great tourism potential. Since Laos at the same time was in the process of opening its doors to the outside world – R1 decided the timing was perfect to establish a business in the tourism sector. For that reason, R1 contacted travel agencies in Scandinavia with whom agreements were reached that he would arrange tours in Laos. Initially R1 would reside in Scandinavia and fly to Laos with each group of tourists. Later, as the number of tours

increased, R1 became more and more firmly based in Vientiane in Laos. As the business expanded he employed his first Lao staff in 1996.

While searching for scenic places to take tourists – R1 discovered an alluring village, Nong Kiau, in the northern part of the country which he realised had enormous tourism potential. R1 purchase land in the village in 2004 to build a resort. While the agencies in Scandinavia in recent years still generate significant numbers of tourists – the scale has been tilted toward Lao companies as the source of most visitors for R1.

The author has known R1 for a long time. Both the author and R1 grew up in Scandinavia, became friends in early childhood, and have remained close friends ever since. When the author first visited R1 in Laos in January 2006, the author noticed a personal change seemed to have taken place. Although R1 grew up with most Western comforts – R1 now embraced the local culture. His residence in Vientiane appeared empty, it did not have furniture or even a refrigerator, and meals would be prepared and eaten on the floor. In spite of the bitter coldness, that characterises many areas of Laos during winter months, his residence did not have a heater. When asked about this, R1 explained that most people in Laos live in a similar fashion, and that he from an early stage sought to integrate with the locals. His ability to integrate is highlighted by the fact that he is locally married and speaks and writes fluent Lao. R1's ability to live and think like a local, with views closely aligned with those of the community, was a prime reason he and his business were selected for the first case study.

## 5.1.1 Fieldwork, participants, and setting

Data was collected for the first case study starting with the researcher's first trip to Laos in 2006. While research themes at this stage were not clearly defined, the researcher kept a watchful eye on local business practices, the surroundings, and in particular R1 (whom the researcher was visiting). Notes were taken, observations made, and detailed photo documentation conducted.

In April 2012 the author revisited Northern Laos for two weeks to collect more targeted data. During this fieldtrip the researcher observed and interviewed R1 – and travelled considerable distances around Northern Laos to meet people associated with his business

(including his staff, wife, and business associates). Physical artefacts and archival records linked to R1's business were also examined. In July 2012 the author met up with R1 again to collect additional data (and to get his feedback on preliminary findings). A number of Chinese traders and suppliers were also included in the first round of research. This was a deliberate decision; engineered to gain insights into similarities and differences between social capital in Laos and China.

## 5.2 Data collection and analysis

In the following the findings from the first case study will be presented. As recommended by Caroll and Swatman (2000), the first conceptual framework will be used as codes for the data-analysis (and in each of the following case studies a revised conceptual framework will be used). This process of conducting case studies based around refined conceptual frameworks will be repeated until a point of data saturation has been reached (Caroll & Swatman, 2000). As previously explained, the categories of the first conceptual framework are as follows:

- Bonding social capital
- Bridging social capital
- Linking social capital
- Moral obligations
- Face
- Local definition and concept
- Origins
    - Confucianism
    - Uncertainty and change
    - Limited legal infrastructure
    - Collectivism
    - High power distance

The prime objective of the analysis is to find the threads in the qualitative data collected, to structure these threads around the concepts in the framework, while allowing a great deal of flexibility for new themes and categories to develop (Caroll & Swatman, 2000). A large part of the findings from the first case study were structured around the components

of bonding, bridging and linking social capital. When reading through these sections it is important to be aware that the lines between the dimensions of social capital are somewhat blurred. That is, actions that can assist in the development of bonding social capital can also assist in the development of bridging and linking social capital. The researcher has endeavoured to list the social capital themes under the headings they have the most attachment to.

## 5.2.1 Bonding context

In chapter two the concept of bonding social capital was discussed. Bonding social capital represents social ties within groups of people in similar situations, with common interests, and with a shared social identity. It may include family, close friends, and neighbours (Lin, 2008; Putnam, 2005; Turner, 2007; Uphoff et al., 2013; Woolcock, 2001; Woolcock & Narayan, 2000). In the Chinese version of social capital, bonding was found to play an important role. Close family members are normally at the core of the Chinese communities, with distant relatives, class-mates, and other people (with whom a given actor has some bonds) at the fringe (Park & Luo, 2001).

This mirrors the situation in Laos, where the research documents bonding forms an important part of social capital. Through observations and interviews with R1 (personal communication, April 8-19, 2012) it became clear that almost all smaller businesses in Laos are family run (something that suggests boning social capital is a predominant feature in Lao society). When locals need support the research documents they approach family first. During the first round of research 70 references were made to bonding social capital. Selected comments can be viewed in Table 5.1.

**Table 5.1 Selected comments – bonding social capital**

| Total References: | | Selected Comments: |
|---|---|---|
| 70 | R3 | *"Sometimes you get surprised just how important it is to drink a beer or eat a meal with people is."* |
| | R1 | *"Question of trust. It is better to employ people you have known for a long time."* |
| | R4 | *"Sometimes they have a big party. They help each other a lot."* |
| | R3 | *"Here things often get done with Lao Lao (spirits) in someone's living room."* |
| | R1 | *"When you have been established you need to look out for your good connections. It is very important people feel you're worth doing business with."* |
| | R1 | *".....but you also need to be critical of trust. For example, if someone is coming from another town you need to get suspicious. Better if you know family."* |

The importance of bonding social capital was illustrated during interviews with R1 (personal communication, April 8-19, 2012). When R1 purchased land in 2004 to build a resort, this was done in cooperation with a Lao partner (as foreigners cannot own land in Laos). His Lao partner was one of R1's first tour guides. The partnership comprised of R1 controlling 90% and the Lao partner, using his local status to purchase the land, received a 10% stake in the business. As bonding social capital is an important factor in Northern Laos, the local partner's extended family would soon join the business. The family members employed mainly worked with cleaning (as they did not have the English language skills to be directly involved with guests). Unfortunately, many of these family members were not qualified for their jobs; something that resulted in a number of problems and sub-standard cleaning. When R1 confronted his Lao partner about this, the partner would fiercely defend his family. This determination to protect family bonds, in spite of obvious problems, is an example of bonding social capital. It was also one of the key reasons the partnership between R1 and the Lao partner years later would be terminated. What this suggests, is that bonding in Laos mirrors that of China; where family members are at the core of the bonding communities – while other people (in this

case a very close business associate of many years) will always be on the fringe (Park & Luo, 2001).

Another example of bonding social capital emerged when R1 (personal communication, April 8-19, 2012) required additional staff. While dining at a restaurant in Luang Prabang, R1 happened to come across an outstanding waiter. An offer for employment was provided and accepted – but under the condition that the waiter's family (three additional staff with whom he was working) could come along. This was agreed upon and, as R1's business slowly expanded, more and more members of that family would be employed at R1's resort. When asked if there would not be more qualified personnel around, R1 (personal communication, April 8-19, 2012) explained that family bonds are more important than qualifications (and that members of a tightknit community better can be trusted). The concept of trust was a reoccurring theme that repeatedly came up through the interviews; something that appeared to be a reason for the need for bonding in Lao society. R1 (personal communication, April 8-19, 2012) explained:

*".....but you also need to be critical of trust. For example, if someone is coming from another town you need to get suspicious. Better if you know family."*

This need for trust in Laos mirrors the situation in China, where cultivating trust has also been found to be a key component of social capital (Grainger, 2006; Lee & Dawes, 2005; Lytras et al., 2005; Yeung & Tung, 1996). When R2 (one of the R1's Lao business associates) was interviewed about the origins of his adventure tourism business, it became clear that during its humble beginnings it was a traditional family run business, where the owners two brothers performed key roles in the company. Later, as the business grew to around 400 staff, and as more control systems were introduced, the two brothers were not needed to the same extent. At this point, the brothers moved on to pursue their own interests; what they really wanted to do. Again, this is a good example of bonding social capital, where helping family comes before individual interests.

The fieldwork documents that outside the family unit, it is essential to continuously nurture and stay in close contact with one's social capital networks. For example, during an interview with R3 (personal communication, April 18, 2012), who originally came from Australia and who manages a restaurant in Luang Prabang, the importance of drinking and socialising with connections was mentioned several times. This parallels the

situation in China, where social capital can be strengthened through strong personal relationships (Hwang, 1987; Yeung & Tung, 1996). The importance of social interactions was highlighted through a participant observation conducted in April 2012:

*The location in Luang Prabang and R1 is running a number of errands to get supplies and sort things out with business partners. The researcher has known the R1 for a long time, and even operated a business with him in a Western country. One notable difference between then and now is the amount of time R1 spends chatting to people. In the past, in his home country, R1 had little time for small-talk and everything used to be done in a no-nonsense manner.*

*During the course of a day we chat to numerous people. Small informal chats. For example, we chat to staff in a hotel that is used for tours arranged by the R1. Recently, due to staff changes, they have not been replying to emails. For that reason relationship building is needed with the new staff; chats are friendly and conducted in Lao.*

*Later in Nong Kiau, similar practices take place. Here brief friendly chats are constantly made with local traders, most lasting no more than 2-5 minutes. At some stage, when we are walking across a bridge, we see a government employee who works for the local tourism commission. He pulls over on his motorbike and chats for a few minutes before continuing his journey.*

These brief encounters seem to form an important part of bonding social capital. When asked about this observation, R1 (personal communication, April 8-19, 2012) acknowledged the importance of continuous contact; something that is important both for maintaining existing and establishing new connections. This was later confirmed by R3 who explained how he often has been surprised to notice just how important it is to drink a beer or eat a meal with contacts. R3 (personal communication, April 18, 2012) stated:

*"I would think it is nice, but the locals really appreciate it."*

All in all, what has been discovered during the first case study in regard to bonding social capital is that family members are at the core of the Lao bonding communities (with other

people on the fringe). Trust, continuous interactions and strong personal relations are important ingredients of bonding networks in Northern Laos.

## 5.2.2 Bridging context

Bridging social capital refers to relative open networks between individuals or different homogeneous groups (Beugelsdijk & Smulders, 2003; Grafton, 2005; Putnam, 2005, 2009). Bridging social capital can help actors move beyond the closed groups formed through bonding – and bridge the gap to outsiders. In the Chinese version of social capital, bridging performs an important role; especially for outsiders who are not born into a given bonding community. Here, the gap between insiders and outsiders in the networks can be bridged through a common experience or through intermediaries (Grainger, 2006; Lee & Dawes, 2005; Park & Luo, 2001; Yeung & Tung, 1996).

The fieldwork documents bridging also forms an important part of social capital in Northern Laos. This was confirmed through multiple interviews and observations. As will be demonstrated below, the fieldwork also documents bridging social capital is relatively easy to establish in Northern Laos.

During interviews covering the early years of R1 in Northern Laos, it became clear that this respondent rarely encountered problems being excluded from networks. In the beginning R1 would ask around until he found the things he needed. When approached, people would be open and friendly. When business was repeated, he would get to know the locals and trust and connections, or social capital, would be established. R1 (personal communication, April 8-19, 2012) argued:

*"It is not difficult to get to know people. You only have to do business the same place a few times. And, then you know them. And then you must act like someone who can control his finances. Here it is important to act like someone who can control his finances."*

What this suggests is that it is possible to build social capital – and that trust lies at the core of bridging social capital in Northern Laos. When the last point in the above statement was investigated (R1, personal communication, April 8-19, 2012), it became

clear that one of the benefits of social capital in Northern Laos, is the ability it gives holders to get credit (when trust has been established).

In the social capital discussion, Putnam (2001b) and Putnam & Helliwell (2007) argue that social capital involves associations with norms of reciprocity. In the above example, reciprocity takes the form of credit with the expectation that future payments will be made (something that would be rather difficult to legally enforce in Laos). Coleman (1988) argues that the social structures that support social capital includes obligations, expectations, and trust; something that was very much evident in discussions with R1 (personal communication, April 8-19, 2012). Here it became clear that rumours spread swiftly and actors' social capital quickly will be lost if obligations are not fulfilled (e.g. if an actor does not pay debts). During the first case study 67 references were made to bridging social capital. Selected comments can be viewed in Table 5.2.

**Table 5.2 Selected Comments – bridging social capital**

| Total References: | | Selected Comments: |
|---|---|---|
| 67 | R1 | *"It is not difficult to get to know people."* |
| | R1 | *"I got to know them because I keep coming there."* |
| | R4 | *"You need to chat. Not for a long time. Get the people to know you. Again and again. It can help your business."* |
| | R1 | *"If you go to a wedding it is good if you sit at the same table as people you can use."* |
| | R1 | *"The relationships work when the right people work together. But often foreigners get hooked up with the wrong people."* |
| | R4 | *"You got to know the people who do business in your area. Drink some coffee, get to know them."* |

Putnam (2001b) argues bridging social capital may include almost invisible forms, like those that entail a nod to strangers in a public place. This form of social capital, while very weak, still creates a small amount of reciprocity – and Putnam (2001b) suggest that if you provide a nod to people in a public space, strangers are more likely to assist if you should have a heart attack. An example of the thin type of social capital, and the ease by which it

can be established, was observed during a drive from Vientiane to Luang Prabang in January 2006:

*R1 and the author have been driving for a long time. The truck is loaded with supplies for R1's business in Nong Kiau. The drive and the scenery are amazing. We pass through beautiful villages that look like something out of a history book. After 3-4 hours we approach an exotically shaped mountain range called Vang Vang covered in thick jungle.*

*When we drive through a typical Lao village, lined with numerous small shops, R1 pulls over and explains he will be back in a few minutes. Before long he returns carrying a plastic bag with packs of cigarettes, not quite full, but not far off either. As we continue our ascent into the mountains, R1 makes it clear that we are entering a dangerous area where a Hmong Tribes resides. He explains that this Hmong tribe became rebels after the communist takeover in the mid-1970s. That they fought for the Royal Lao Government and now operates as a rebel group who occasionally attacks buses and cars. R1 explains that it is custom to supply provisions for the soldiers who are there to protect the public. From there onwards, for the next hour or so, we slow down at the frequent checkpoints. Due to the sweltering heat, we do not see a lot of guards, as they are seeking shelter from the sun in huts and barracks. Every time we pass a checkpoint, though, R1 slows down, honks the horn, and throws packs of cigarettes out the window. We make it through to Phoukhon without any incidents.*

This is an example of the weak bridging social capital Putnam (2001b) discusses – where the provider of supplies, in this case cigarettes, builds goodwill and creates a sufficient amount of reciprocity to anticipate enhanced protection. That the gap between insiders and outsiders is relatively easy to bridge was later confirmed during interviews with R1's head manager in Nong Kiau. When asked what a foreigner intending to establish a business in Laos should do, R4 (personal communication, April 14, 2012) replied:

*"Get to know them, the Lao people. Try to find a good friend who can help you run the business…get to know the people who do business in your area. Drink some coffee, get to know them. Meet then 3-4-5 times."*

When enquired if Lao people are happy to meet foreigners, the reply was that part of the Lao mentality is to be open and welcoming – something that was confirmed through observations made by the author throughout the fieldwork. It was also one of the key reasons R1 set up business in Laos; the open and welcoming nature of the Lao people being good for tourism.

When R1 (personal communication, April 8-19, 2012) was asked about Lao openness he confirmed this to be the case; he furthermore expanded on the topic and argued that Lao people like company and meeting new acquaintances. R1 also suggested that the Lao openness enables foreigners to develop networks. However, while the initial gap between insiders and outsiders relatively easily can be bridged, it became clear that it takes a lot more work to be fully accepted into local business networks. In the social capital discussion, this suggests that while the establishment of weak bridging social capital is easy, getting to a stage in a relationship where strong social capital becomes possible will take time and repeated business.

This openness of Lao culture, and the ease of getting to know people, were experienced by the researcher and are described in the following participant observation conducted over a two week period in April 2012:

*While driving into Luang Prabang, the author noticed many people on the roads with water pistols, water balloons, and buckets of water that would be aimed at people passing by. The people engaged in the water throwing activities seemed to be the general public. Most people involved, both givers and receivers, seemed to enjoy the activities. Motorcycle riders would pull over to receive a decent soak. R1 explained this formed part of the Lao New Year celebrations, Songkran, something the locals engage in with great spirit.*

*After arriving at R1's house in Luang Prabang, and after securing electrical equipment in watertight bags, we walked to the city centre. On the way we repeatedly got drenched by many groups of remarkably cheerful people; something quite refreshing considering the scorching heat. People would often invite us in for drinks or food – which we would politely decline (as R1 warned that accepting an invitation would entail considerable alcohol consumption).*

*Later R1 and the author sailed to a small village called Muang Mgoy. The boat trip was amazing; we sailed in a traditional Lao long boat among towering mountains covered in rainforest, with mountain villagers fishing with casting nets, and water buffaloes sticking their heads out of the murky river water. When we arrived in Muang Mgoy, the practice of water throwing continued, although to a lesser extent due to the lack of tap water in this area. People around us were remarkably friendly. While many shops and restaurants were closed, nearly everyone would invite us in for food and drinks. I was repeatedly warned by R1, that if I made eye contact with anyone we would get intoxicated in short order.*

*During a hike, we could not help but notice the attractiveness of the area, with lofty mountains lining lush valleys with traditional Lao huts standing on poles above the ground. While hiking, we discussed the potential for building a resort in the area. When we made it up to a village we had no choice but to join the local's New Year celebrations. So far, in the larger cities, we had kept under the radar and avoided the celebrations (as we were a couple of outsiders among many others). However, in this remote village, we stood out. In spite of the poverty of the area, locals would insist on sharing their plenty supplies of Lao Lao (local spirits) and beer Lao with us. We did our outmost to avoid excessive alcohol consumption, considering the high temperatures and the long hike back to Muang Mgoy, but to no avail.*

*After a considerable amount of liquids (water not being on offer), we would on the hike back discussed the ease by which foreigners interested in setting up a business, could bridge the gap between insiders and outsiders with the locals. There was not a person in the village we visited that would not happily invite us in for their New Year celebrations – something that would provide a great opportunity to network. R1 assured the researcher the story would have been the same all over Northern Laos.*

### 5.2.2.1 Intermediaries

An important aspect of bridging social capital relates to the used of intermediaries. Yeung & Tung (1996) and Grainger (2006) argues actors' social networks in China can be rearranged with the objective of including an outsider into a social capital network. For example, two people who do not know each other, but who both know an intermediary, can be connected through that third person. Drawing on comparisons between Chinese and

Lao social capital, and from interviews with R1, it became clear that social capital is transferable in a similar fashion in Northern Laos. The following email communication (R1, personal communication, Jauary 9, 2012) describes the transferability of Lao social capital:

*"In regards to networking, then I'm considering taking up consultant work for foreign (health) insurance companies. One of my guests recently passed away, and I found out that the international SOS Bangkok department has done much too little in regard to networking. The hospitals in Laos are used to have relatives there to help with the practical aspects and to guarantee payment. They don't trust a fax from abroad that promises payment. Therefore one has to network. That can be done by visiting and speaking to (hospital) managers and staff, and then….drink a beer with them. Thereafter it is easy to call and get things moving from an office in Bangkok or other places."*

During subsequent interviews, R1 (personal communication, April 8-19, 2012) elaborated that the patient in question did get treatment, but only because R1 was there as an intermediary. It also became clear that many locals would not know what insurance papers are (or even trust them if they did); that a person without cash, connections, or intermediaries would find it difficult to get medical attention.

**5.2.2.2 Continuous interactions**

For a number of years, R1 has been taking tourists on tours into China from Laos. At the Lao side of the border, a number of currency exchange ladies reside – all of whom has different rates. During a visit R1 shopped around to find the best rate for his tourists. The next time R1 came with another group of tourists, he went straight to the lady with the best exchange rate, at which stage she offered him a commission. R1 politely declined the incentive, but a compromise was reached that the exchange lady would supply a carton of water that the tourists could drink in the car. This arrangement has been in place ever since; the best exchange rates in the area, combined with water bottles for the tourists. R1 (personal communication, April 8-19, 2012) explained:

*"So I got to know them because I keep coming there."*

During a discussion of this occurrence with a *guanxi* expert, Stephen Grainger (personal communication, June 6, 2012) from the Edith Cowan University, it became clear that although this instance occurred in Laos, it appears like a classic example of *guanxi*. A relationship with the exchanges of favours was established.

A few years back R1 purchased electrical blankets in China for his resort in Nong Kiau. Since these had to be transported across the border, he contacted the same exchange lady to see if she could help get the blankets across (heavy duties could potentially be applied). The exchange lady's husband took R1 and the boxes across the border in his truck, and no fees applied at customs (as the exchange lady's husband was known to the customs officials). This example provides a good illustration of social capital, how it can be established, and how it can bring benefits to both holders. In this case the exchange lady gets repeated business – and in turn R1 receives the best exchange rates for his tourists, water for the travellers, as well as assistance with customs at the border. During following discussions, R1 (personal communication, April 8-19, 2012) elaborated that the key in Laos is to find someone with local knowledge; someone who knows how it works and who has the right connections.

### 5.2.2.3 Trust

A reoccurring theme that persistently came up from multiple data sources was a concern of trust. While it is relatively easy to bridge the gap between insiders and outsiders – both locals and foreigners stressed the importance of finding the right people with whom to network. During interviews with R1 (personal communication, April 8-19, 2012) it became clear that this is especially an issue for foreigners, as they tend to be bad judges of Lao people – and because they have little or no networks upon arriving in the country. R1 explained that many smaller FDIs in Northern Laos are former tourists; they come to Laos, fall in love with the country, and decide to stay. Many of these, according to R1, will down the track experience problems related to trust. In many cases the Lao people who work with tourists are opportunists who aspire to quick returns, and doing business with these may not be a good idea. R1 (personal communication, April 8-19, 2012) explained:

*"Imagine a tuk-tuk driver who learns English. Even if foreigners get the necessary approvals there are plenty of chances to become ripped off. Many foreigners marry*

*prostitutes – and that does not improve their business success chances. The wrong type*
   *of people.”*

That is, if one wishes to conduct business in Laos, it would be important to find someone who already has well established connections. When asked how one would find these people, R1 (personal communication, April 8-19, 2012) replied:

*“That is tricky. Look at the Belgian who is setting up the hotel on the mountain top. He came through the door and the local business man said yahooooo. They did not know each other. They must have met somehow, and the Belgian wanted to build, and the local had land. Chances are the Belgian has no idea of who he is working with. I do not know the details. What I do know is that it will be very difficult to run that hotel up there. Getting guest up etc….Quite often foreigners are bad judges of Lao people.“*

R1 elaborated that the business being established by the Belgian investor is fundamentally flawed; something the Lao partner would have been perfectly aware of. The location is wrong, the investments far too big, and chances are that sooner or later the Belgian will pull out of the venture, leaving his local partner with a number of assets that he did not have before. R1 then refers to a Chinese trader/supplier, whom we met earlier that day, as a trustworthy business person who buys good pumps in china, who can be relied upon, and whose word people trust. R1 pointed out that it takes time and networking to find these people.

Years back R1 decided to improve the attractiveness of his resort by introducing adventure tours in the local area. These include mountain climbing, mountain biking and kayaking. In order to get approval to operate such activities – one must either obtain a formal license from the government which cost approximately U.S. $200,000, or one must subcontract from an existing licensee (who then assumes responsibility for the activities carried out). The latter option being difficult to come by, as Lao authorities clamp down hard on both licensees and subcontractors if accidents were to happen. Having operated as a reliable and trustworthy business person, with strong social capital networks for many years, R1 managed to subcontract from an existing licensee holder. The relationship between R1 and the licensee is a good lesson in Lao bridging social capital development. According to R1 (personal communication, April 8-19, 2012) the two initially met and embarked on a conversation in a beer garden in Vientiane. Initially the social capital between them was

weak. Later, when more and more social interactions took place, the social capital grew stronger, and over time it evolved into a business relationship as well. This relationship was a long time in the making before R1 became a subcontractor of adventure tours.

During an interview with the Lao licensee (R2) from whom R1 sublicense the right to run adventure tours, the issue of trust was brought up as one of the most important factors when running a business in Laos. R2 (personal communication, April 9, 2012) now employs around 400 staff – but during the early years it was a family run business that employed his brothers. When enquired about this, it became clear that they were involved because they could be trusted. As the tourism sector in Laos expanded and the business grew, more and more outside staff had to be employed and social capital and trust would slowly be replaced by various control systems.

In summary, while the initial gap between insiders and outsiders can easily be bridged, one must work hard to turn this weak form of social capital into a strong bond. Continuous social interactions, repeated business, trustworthy operations, and fulfilment of obligations are ways in which this can be accomplished. Intermediates can also be used to bridging the gap between insiders and outsiders.

## 5.2.3 Linking context

Linking social capital refers to social capital that works on the vertical level through the linking of actors from different social and economic backgrounds. It can help individuals form links with people in a position of power and connect actors with more formal institutions like government officials (Putnam, 2005; Woolcock, 2001). During the first round of research a total of 16 references were made to linking social capital. This is significantly less than what was made to bonding and bridging social capital. Selected comments can be viewed in Table 5.3.

**Table 5.3 Selected comments – linking social capital**

| Total References | | Selected Comments: |
|---|---|---|
| 6 | R1 | *"I would think officials would get annoyed by the amount of people who want to catch up, but that does not seem to be the case."* |
| | R1 | *"If something goes wrong connections are important."* |
| | R3 | *"Offered them iced coffee, and in the end, never bribed, but things worked out for the better."* |
| | R1 | *"Officials who provide favours to other people will be more liked. Someone with power not helping would not be popular."* |
| | R1 | *"It helps a lot if you know someone in the different offices."* |
| | R3 | *"You must know people and with government officials you must grease the wheels."* |

Data from the first case study suggests that linking social capital is not as dominant as bonding and bridging social capital in Northern Laos. Multiple sources confirmed this to be the case; the argument being that the Lao government does not have a big involvement in business (R1, personal communication, April 8-19, 2012; R2, personal communication, April 9, 2012; R3, personal communication, April 18, 2012). During an interview where comparisons were made between the Chinese and the Lao ownership systems, R1 (personal communication, April 8-19, 2012) suggested Laos was:

*"Much more flexible. That would have made my business impossible. Here the officials want FDIs to do well. They do not like problems. Problems will make it harder to attract additional FDIs. Laos does not have any ports, no educated workforce, so they have to compete on being business friendly and letting foreigners own 100 precent."*

That is, it appears that a key difference between China and Laos relates to state involvement in business; and in Laos linking social capital seems to be of less importance because there is less state involvement (in small business).

Many of the tours R1 arranges are not limited to Laos, but also explores the surrounding countries, in particular China. During these encounters R1 noticed that the Chinese state always seem to be a player in business. R1's (personal communication, April 8-19, 2012) explained:

*"I realised a big difference between China and Laos. In China you need a partner who owns 51 % – and in China there is a lot of companies that are closely tied to the government at least when you get into big industry. That is a big difference that is very important...many people who write PhDs about China would write about these companies. Government is everywhere in business in China, that is something many complain about there.*

*Here you make your tours and pay your taxes, and you need your permissions, and that is it. But in China you have to dance with the government. Even in something as simple as tourism in China you dance with the state. I heard this thing, it was from Heijin which is a very small town up in the north of China where everyone involved with arranging tours and tourism had to pay with a debit card that was issued by the local authorities."*

R1's (personal communication, April 8-19, 2012) elaborated that in his experience the Chinese government has:

*"A finger in every pot."*

This, according to R1, is profoundly different from Laos – where there is a much clearer separation between government and businesses (and where the government allows foreign investors to have 100% ownership). This was later confirmed by the extant literature, where it became clear that ownership laws in Laos appear much more business friendly than in China (Michailova & Worm, 2003; Ye, 2012).

In the literature review in chapter two, Yeung & Tung's (1996) were quoted as arguing social capital is of particular importance for small and medium sized business in China. This being the case, as smaller businesses often struggle to gain access to needed resources in China, while larger businesses tend to be welcomed with open arms (as they bring substantial benefits in regard to investments and employment). In Laos this appears

different – because the government has less involvement in business and because many suppliers are privately owned

Another crucial reason linking social capital is of less importance in Laos than in China, is the fact that communism was never implemented to the same extent (R1, personal communication, April 8-19, 2012). R1 explained that he has often seen people living in collective enterprises in China. When enquired about such collective structures in Laos, in particular St John (2006b) observation that after the communist takeover a rapid process of collectivisation took place, R1 (personal communication, April 8-19, 2012) explained:

*"It never worked. In China there was always a lot of social control. And you lived and worked the same place. Very little private life. When I first came to China there was very few private hotel rooms, only a few. In principle you were meant to sleep in dorm rooms in hotels…and that would have given the Chinese government a lot of influence. You need a lot of control mechanisms to control the population as what happened in China. The Lao government never had that control. Back when they tried to control people they used Vietnamese to spy on people here. They did not have the skills locally. But in the villages, people lived like they had always lived. Try to make collective farming here."*

When asked about the 2,800 Sahakone Kaset, or agricultural cooperatives, established in Laos in 1979 as identified by Correl (2006), R1 (personal communication, April 8-19, 2012) responded:

*"That would most likely have been just around the major cities. Around Vientiane where the land is flat and they could control it. Try to get officials up here. They would have to climb over 5 mountains. Socialism never really got implemented here in Laos. If you ask Lao people if there is any conflict between religion and communism, they would never have heard of any conflict. But in Vietnam and China everyone would know of the conflict. Even in China today people are reluctant to answer questions about religion."*

The revelation that communism was not implemented as fully in Laos as in China, suggests that Lao businesses may not have had the same need to use social capital to fill gaps in quotas and allowances resulting from central planning.

R1 (personal communication, April 8-19, 2012) explained that linking social capital would be needed the most in areas traditionally controlled by the government (e.g. investments in areas like mining, infrastructure, and hydroelectric). This assumption was confirmed by one of R1's business associates, R3 (personal communication, April 18, 2012), who revealed that linking social capital is critical for humanitarian aid organisations as the nature of their operations overlap with government responsibilities.

During the interview with R3 (personal communication, April 18, 2012) it became clear that his catering business follows the rules but otherwise operates relatively freely. Even so, R3 did acknowledge that a key difference between Laos and Australia was the amount of time he would spend networking. R3 elaborated that most networking meetings on the surface would have no particular reason. Later, if confronted with problems, or just paperwork, these relations would prove useful. An example provided by R3, was from a business sign mounted on the façade of his business. A few years back, he was informed by the authorities that the sign was too big, and had to be removed (as it did not meet the restrictions that came with the UNESCO heritage listing of Luang Prabang). R3 went to the relevant government department to discuss his options. The first meeting led to additional meetings, and a relationship started to form with a government official. In the end, the government official ended up arranging and paying for the production of a new sign that would meet the UNESCO guidelines. R3 (personal communication, April 18, 2012) explained:

*"In the end we ended up with a much nicer sign. So, going through the right channels, invite them in, offer them iced coffee, and in the end, never bribed, but things worked out for the better. The government officials are very friendly."*

In this case the exchange of favours, that is a central component of social capital, took the form of time spent on relationship building and the provision of drinks on the manager's part – and the arrangement of a new sign on the government official's part. When asked, R3 confirmed that if the government official were to visit the restaurant again, meals would either be discounted or provided free of charge.

During the interview with R3 it became clear that the respondent's wife, who is employed in Laos by an aid organisation, operates in a very different environment. Here extensive

favour exchanges are required with government officials in order to ensure smooth operations. R3 (personal communication, April 18, 2012) explained about this sector:

*"When they want to build schools the government officials want them to buy them trucks and fly them up to the school opening and house then and pay them daily allowances while there. Often this may cost more than the actual school. But in the end they get it done."*

Unfortunately the wife in question was out of reach during the time of the fieldwork, and for that reason could not be interviewed. What became clear from the R3 was that linking social capital surfaced as a critical factor when dealing with sectors normally controlled by the government. R3 (personal communication, April 18, 2012) elaborated:

*"There are 13 or 16 areas of government that does not necessarily recognise each other. She has had a huge issue lately, she will go the department of education and they will say we want a stamp, and she will say I got a stamp from tourism. Oh we do not recognise that, we need a stamp from the department of foreign affairs. And they do not recognise the department of education... I think it has been more lax with business, because it is free money coming into the country."*

When a comparison was made between the hospitality business run by the respondent, and the aid agency managed by his wife, R3 (personal communication, April 18, 2012) explained:

*"Yes, free market for us, capitalism. For NGOs it is communism."*

This was an issue that came up multiple times during the fieldwork. Private businesses appeared to operate relatively freely – whereas organisations that operate in areas normally controlled by the government do not.

Although bonding and bridging appears more important than linking social capital for small to medium sized businesses, R1 (personal communication, April 8-19, 2012) stressed social contacts with government officials are valuable, and that he often has been surprised to notice just how important it is to drink a beer or eat a meal with officials. That

the locals really appreciate this form of contact. R1 (personal communication, April 8-19, 2012) moved on to explain:

*"I often underestimate how important it is. Even if at a wedding one sits at the same table with someone of certain power, and even if one does not necessarily talk all that much, it still is important. I would think officials would get annoyed by the amount of people who want to catch up, but that does not seem to be the case."*

The analysis so far suggests linking social capital with low key officials can be established much the same way as bridging social capital. R1 (personal communication, April 8-19, 2012) suggested that the connections FDIs can get higher up in the hierarchy, depends on the size of investments being made.

During an interview with R1's Lao head manager the Lao university sector was discussed. When asked if students' acceptance into university was based on standard applications, or if connections could influence the process, the response was that (R4, personal communication, April 14, 2012):

*"They got 300 places. I asked what can I do? And I got in. But if you know someone, your cousin or important people or your father or uncle is important people in Laos. Then it is easy to get in."*

This confirms previous findings (R1, personal communication, April 8-19, 2012; R3, personal communication, April 18, 2012) that while linking social capital can bring benefits – it is not necessary to get things done. When asked how an investor from Australia could get needed contacts among government officials in Laos, the reply reflected that of previous responses; that Lao government officials appreciate meeting new contacts, and that much can be accomplished through informal conversations and dinners. R4 (personal communication, April 14, 2012) suggested:

*"You need to chat. Not for a long time. Get the people to know you. Again and again. It can help your business. Just smile and talk. Sometimes they have a big party. They help each other a lot. But often foreigners don't know this."*

In summary, due to a relatively clear separation between government and small to medium businesses – linking social capital appears to be less prevalent than bonding and bridging social capital in Northern Laos. Even so, linking social capital with officials is beneficial and can be establish much the same way as bridging social capital. The research revealed that linking social capital would be needed the most in areas normally controlled by the government.

## 5.2.4 Moral obligations context

In chapter two the concept of moral obligations was discussed. Here it was revealed that moral obligations in the Chinese version of social capital refers to the idea that one must assist when called upon, return favours, and maintain harmony and the relationship. A key component of moral obligations in China relates to the provision of gifts and benefits; without which business relationships cannot be sustained. This being the case, as material gains is a core reason people in China engage in *guanxi* networks in the first place (Grainger, 2010; Lytras et al., 2005; Wong et al., 2007; Yeung & Tung, 1996). During the first case study, a total of 53 references were made by respondents to face and moral obligations in Northern Laos. Selected comments can be viewed in Table 5.4.

**Table 5.4 Selected comments – face and moral obligations**

| Total References | | Selected Comments: |
|---|---|---|
| 53 | R1 | *"People don't really say no. You have to learn to read their faces. It is not nice to say no to people."* |
| | R1 | *"Here people have to be concerned about what they got to loose. If you have a lot of common friends and they hear about a contract breach, then you'll be seen as untrustworthy."* |
| | R5 | *"The social role of the company made things easier e.g. easier to get stamps and approvals from local government officials."* |
| | R1 | *"Favours are always supposed to be repaid."* |
| | R1 | *"People do not like to be put on display when they make a mistake, and the surroundings are sufficiently polite not to mention."* |
| | R3 | *"...each time you receive a written invitation to a wedding or similar, then you put money in the invitation."* |

Through interviews with R1 (personal communication, April 8-19, 2012) it emerged that when an actor assist others, especially when this person does something extra to help, then it becomes easier to ask for help and to get assistance when a need arises. Furthermore, when a foreigner receives a favour, then that person will be well advised to repay the favour at a later stage. However, opposite the situation in China, it appears that material gift exchanges are not critical for social capital development in Northern Laos. This was confirmed by several sources from the first case study (R1, personal communication, April 8-19, 2012; R2, personal communication, April 9, 2012; R3, personal communication, April 18, 2012).

However, while gift exchanges was not found to take place during the everyday operation of a small business – certain practical and ceremonial driven exchange-norms were identified which can improve an actor's moral standing (R1, personal communication, April 8-19, 2012). The first of these relates to practical gift giving; a person travelling from an area abundant in a given food category (e.g. dried fish) would be expected to bring dried fish to connections in an area without. According to R1, the provision of gifts

in the form of food is quite common (a practical tradition from times when food was scares in Laos). The other common avenue for gift exchanges is weddings. This was reflected in an interview with R1 (personal communication, April 8-19, 2012):

*"...each time you receive a written invitation to a wedding or similar, then you put money in the invitation. You're not supposed to bring a stupid vase. No one wants that...and if you do not come to the wedding, if you cannot be bothered to drink, then you can still send the envelope. And then you end up sending many envelopes to all sorts of people that you do not really care about."*

During the interview with R1, the importance of financially supporting the bride and groom for an actor's social standing became clear. R1 receives wedding invitations frequently, and money is always provided in envelopes, because that forms part of one's moral obligations. Again, this seems to be a practical form of gift giving, to help a newly wedded couple, whereas in China gift giving appears to be a routine business practice (Grainger, personal communication, Febuary, 2013).

In further interviews with R1 about gift giving (personal communication, April 8-19, 2012), it became clear that with kick-backs it is possible for actors to get access and influence. An example of this could be roadwork projects where higher prices may be charged, with the expectation that something is returned to decision makers. But unlike China, where such practices traditionally has been the norm (Wong et al., 2007), this appeared to be frowned upon and considered corruption in Laos. This seems to be an important difference between Chinese and Lao social capital. Grainger (personal communication, June 6, 2012) who has conducted extensive research into Chinese social capital and gift exchanges, explained that when asked about corruption in China, people would looked shocked and respond:

*"No that's the way we do business around here."*

This is fundamentally different from the situation in Laos, where respondents, including locals, would meet the theme of gift giving with reluctance and uncomfortableness. This reluctance suggests, that gift giving is considered bribery; a corrupt practice that one would not discuss with an outsider. Through the fieldwork conducted for the first case study, observations were made aimed at identifying gift giving practices. During these

observations no physical artefacts associated with gift giving were identified at any of the respondents' premises. That is, while soft favour exchanges or gift giving associated with food or weddings seems accepted, or even required, other material exchanges do not appear to be common practice among small to medium businesses. Rather, the fieldwork documents that outside the family unit, one of the keys to maintaining social capital in Laos is to continuously cultivate a given actor's social capital through social engagement.

An important aspect of moral obligations in China is referred to as *Renqing*; something that relates to understanding other people's feelings, to act appropriately, and to avoid what others resent (Grainger, 2006; Hwang, 1987; Lee & Dawes, 2005). Hammond and Glenn (2004) illustrate this through the example of Chinese who often answer 'yes' to maintain harmony when asked a direct question (even if they mean no). This focus on harmony seem to be replicated in Laos – and is partly illustrated by the following statement from R1 (personal communication, April 8-19, 2012):

*"People don't really say no. You have to learn to read their faces. It is not nice to say no to people. It is easier to say yes than no. If people say nothing it is a no."*

The perception that harmony forms an essential part of social relations in Northern Laos was confirmed many times during the research. However, R1 suggested that politeness would be a better word than harmony for the Lao context (R1, personal communication, April 8-19, 2012). During an interview with R1's head manager about management practices in Laos the issue of poorly preforming staff was raised. R4 (personal communication, April 14, 2012) explained:

*"I sometimes get angry but go between being angry and laughing and happy all together. If I get angry only for a short time. If you are angry more staff will quit very quickly. I always try not to fight with the staff. Rather I try to be friendly with them."*

This focus on good relations was reinforced by an example that was provided by R3 (personal communication, April 18, 2012):

*"In the west you can tell people this is not good, I feel frustrated, and I hope it does not happen again. Most people can walk away and say okay, give themselves a slap on the*

*wrist. Here the first time I did that people would walk away and be crushed. They took it very personal."*

What this suggests is that direct Western management styles do not agree with the indirectness and concern for face that prevail in Northern Laos. That a Western manager who seeks to enhance social capital in the workplace must tread very carefully. This focus on good relations and politeness was further illustrated by an example provided by R1 (personal communication, April 8-19, 2012). In this example R1 explained that the reception at his resort is staffed around the clock, but that nightshift workers are allowed to sleep on the floor (as long as they are there if a guest needs them). One night R1 realised that the staff member on duty was missing – at which point R1 manned the reception instead. Later that night, the absent staff member returned from a party and found his boss sleeping on the floor. R1 did not get angry at the staff member; nor did he ever mention the incident. However, from that point onward, the staff in question exceled in all his duties to make up for his slip-up. The fact that the boss in this instance pursued an indirect approach allowed the staff member to save, and later through good performance, redeem face (this component of Lao social capital will be discussed below).

### 5.2.4.1 Face context

In chapter two, the literature review, the concept of face was identified as an important part of Chinese social capital. In China face, or *mianzi*, will be gained if a person is seen as righteous and lost if obligations are not met. The literature review revealed that it is essential for Chinese to have and preserve face in order to maintain social capital networks (Hammond & Glenn, 2004; Park & Luo, 2001; Wong et al., 2007).

When the concept of face was researched during the fieldwork in Laos, it became evident that face also forms an important part of Lao social capital. R1 (personal communication, September 21, 2012) explained the local term for face is *na* and emphasised that a relationship will be harmed if an actor causes another to lose face; that one should not contradict others unless necessary; and that the surroundings in Laos will be diplomatic and not put people on display when they make a mistake. Here a contrast was made to Scandinavia, where both the author and R1 were born. In Scandinavia people tend to be less polite – and if a mistake is made then the wrongdoer is likely to become a

laughingstock. R1 then moved on to provide an example of the concept of face in Northern Laos, and how acquaintances endeavour to sustain people's reputation:

*"When people err, they do not like that to be on display. Associates in Laos are sufficiently polite not to say anything. I used to know an Australian in Laos who made a fool of himself. He believed in some English investment fraudsters, and he worked very hard on securing funds for their scheme. Everyone else could see they were untrustworthy, but he would not listen. When the investment scheme finally collapsed, his networks thought it was very funny, but no one confronted him directly."*

In this case the network would maintain good relations and politeness as a mean to preserve the Australian's face. During the fieldwork it became evident that a key component of face in Laos relates to trust which emerged from multiple sources (both Lao and expatriates) as an important theme in Lao social capital. During an interview with one of R1's Lao business associates who employs serval hundred people, R2 (personal communication, April 9, 2012), the concept of trust was discussed:

*"The system we're working on is in the process of becoming computerised and is still not good enough to control the staff. For example, we need very professional people to manage different operations and it is not easy to find competent people in Laos. So when we have trustworthy people in restaurant who we had for a long time and we know how they work, we rather pick them as they will not steal. It may be different in France where you can find trustworthy and competent people, but here we look for trust first."*

In the following discussion it became clear that in order to be considered a trustworthy person one needs reputation (or face). If an actor has no reputation, for example if he or she comes from another town and seeks employment, potential employers will be suspicious. Preferably, business managers will know not just a person, but also the family (something that is reflected in R1's staffing approach where many employees belong to the same family). A similar trend was observed by Schopohl (2011) who argues Lao rely on mobilisation within kindship networks (as opposed to foreign labour) when help is required.

During interviews with R1 and his business connections, the concept of trust was raised many times. The social capital literature reveals that social capital only exists in communities with strong ties and high levels of trust (Coleman, 1988; Gu et al., 2008). However, in Northern Laos observations revealed a general lack of trust (outside of the social capital networks). The general lack of trust in Lao society was documented by photographs taken of R1's residence in Luang Prabang. The house is heavily protected in spite of the fact that little of value can found in the residence (which mainly comprise of empty rooms). This is in sharp contrast to the researchers experiences with R1 when he lived in Scandinavia; back then the only security on his residence (in a rather large city) was a standard lock on the door (that often was left unlocked). Figure 5.2 illustrates R1's residence in Luang Prabang with barbed wire on top of a high metal fence (spanning the entire perimeter), metal bars in front of the windows, and safety-netting under the roof tiles.

**Figure 5.1 Security installations**



It appears, that compared to a society like Scandinavia, there seem to be less trust (to outsiders) in Laos; something that in business is compensated by strong social capital networks (where high levels of trust can be found). That is, while people in societies like Scandinavia or Australia can rely on a general level of trust, and for that reason can get by without strong social capital networks, the situation seems to be reversed in Laos.

During interviews with R1 the importance of trust in regards to payments was stressed. Here it became clear that actors operating in the Lao business environment often get credits when they do business within their social capital networks. R1 (personal communication, April 8-19, 2012) explained about the importance of trust in regards to payments:

*"Simply in regards to delivering some goods, get a promise that payment will be made next week, and then expect payment will happen with no problems…you trust business connections more than staff. Because business connections have future expectations and interest to the relationship."*

R1 (personal communication, April 8-19, 2012) explained the idea of trust in Lao social capital through the following idiom:

*"I think you can draw it like a spider web with rings, where close to the centre you have your business connections, which you would draw like rings in bold, and where you have staff, which is less important, which you could draw in dotted lines and loose dots. There is a significant difference. In Japan it would be easier to trust staff, as they have a vested interest in the relationship (due to lifelong employment)."*

R1 (personal communication, April 8-19, 2012) illustrated this through a drawing (Figure 5.2). Here a strong bonding network is illustrated by the main dots (representing people) and lines (representing social capital). Less important business acquaintances, that do not have much social capital, are illustrated by the lesser dots and the lesser lines. The suggestion being, that while it is relatively easy to do business and become one of the lesser dots – it takes a lot of work to be included in the primary bonding networks.

**Figure 5.2 Social capital network**
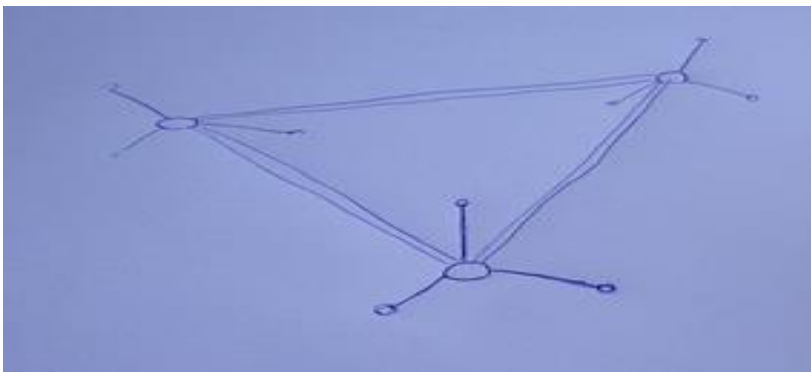
Trust within networks will quickly be lost if an actor breaches an agreement – and the effects of dishonesty will amplified by the fact that rumours spreads swiftly within the communal structures of Lao society. When this happens, the effect will resemble that of a rock thrown into a calm lake, with rings rapidly spreading from the point of impact. R1 (personal communication, April 8-19, 2012) explained:

> *"If looking at the spider web, trust between business people has to be in place. But in regards to the outer dots, then Lao and foreigners got the same problems with lack of trust."*

During further discussions, it became clear that in Laos foreigners (at least initially) will often be on the fringes of the networks/one of the lesser dots (R1, personal communication, April 8-19, 2012). If a Lao breaches a contract with a foreigner on the fringe, then the Lao offender may not necessarily lose credibility. This being the case, as people on the fringe are considered outsiders; they are not part of the robust social capital network where actors look after and trust each another. That is, while a breach of confidence within a social capital network will have immediate and significant consequences – acting improperly to outsides may have little or no consequences.

In summary, successful business operations require good networks, and good relations with regular social interactions are at the core of these. A key focus is on harmony and politeness – essential ingredients for good relations in Northern Laos. It is important to have and preserve face (*na*) in order to maintain social capital networks.

## 5.2.6 Reasons and origins

The primary aim of this research is to identify the form and use of social capital among FDIs in Northern Laos. A secondary aim of the study is to examine the origins of Lao social capital.

In chapter two and three it was argued that the distinctive version of social capital that exist in China, evolved the way it did to enable the people to deal with a set of conditions that have influenced Chinese society. These conditions include change and uncertainty, Confucianism, collectivism, high power distance and limited legal infrastructure. In the

literature review it was found that many of these factors are replicated in the Lao context, something that makes it plausible that there will be similarities between Lao and Chinese social capital. During the fieldwork, these potential social capital influencers were researched to assess if they also helped sculpt Lao social capital. The findings from this investigation will be presented below.

**5.2.6.1 Confucianism**

Confucianism was in the literature review identified as one of the factors that helped shape Chinese social capital (Banfe, 2011; Hitt et al., 2002; Wright et al., 2002). Confucianism originated in China around 500 BC; and Confucian teachings, with the associated values, norms, and codes of conduct, have been of great importance in China ever since (Dunning & Kim, 2007; Hitt et al., 2002). A key factor in Confucianism is the belief that people are part of a larger network of mutually dependent relationships (Hitt et al., 2002) – and in China this is manifested in the significance of networks and interpersonal relations (Park & Luo, 2001).

In spite of the fact that Laos and China are neighbouring countries – it appears that Confucianism has not influenced Lao society. This was illustrated in discussions with R1 (personal communication, April 8-19, 2012):

> *"Half of the Vietnamese words are borrowed from China. But the Annamite Mountains separate Vietnam from Laos. The Chinese travelled south. So Laos and China have been isolated. No one here knows who Confucius is."*

This was also reflected in conversations the researcher had with locals who became puzzled when asked about Confucius. When enquired about external influences on Laos R1 explained, something confirmed by Holt (2009), that many similarities exist between Thailand, Laos, Myanmar and Cambodia (which have all been influenced by Buddhism from Sir Lanka and India).

That is, the fieldwork in Laos in April 2012 reaffirmed the findings from the literature review, which suggested Laos is not a Confucian society. This again, suggests the Lao version of social capital is likely to differ from the Chinese – in particular in regard to

linking social capital (as a central pillar of Confucianism relates to relationships within steep hierarchies).

### 5.2.6.2 Uncertainty and change

Another key factor that helped shape the Chinese version of social capital was found to be the dramatic political and economic changes that historically has taken place in China (Banfe, 2011; Dunning & Kim, 2007). These changes have produced a great deal of uncertainty in Chinese society – something that has been counterbalanced by strong reliable social capital networks. Events such as the takeover of the Communist Party, the Cultural Revolution and the Great Leap Forward, has created a need for social capital to ensure survival (Banfe, 2011; Dunning & Kim, 2007).

In the literature review it was documented that uncertainty caused by political and economic changes took place in Laos similar to, or in excess of, those which transpired in China (Fry, 2007; Lintner, 2008). Lao history was found to be marked by transformations; the people of Laos have been forced to adopt, migrate and change their livelihoods due to conflict, instability and radical political and economic changes. These changes mirror those of China; with civil war, communist takeover, political and economic centralisation, and later economic reform – just within a shorter timeframe.

However, during the fieldwork it became clear that the respondents interviewed could not confirm whether civil-war, uncertainty, and change in Laos have led to a need for social capital. The closest confirmation was the fact that R1 (personal communication, April 8-19, 2012) thought it seemed logical that close relationships would have compensated for uncertainty in Laos. For that reason, chances are the answer to this question should be found in the literature. While the practitioners of social capital interviewed were found to have good knowledge of what they were doing – they had less understanding of the reasons behind it.

Through an examination of the literature, it became clear that people exposed to change have a tendency to counterbalance the resulting uncertainty with strong reliable social capital networks. Cook (2005) argues that uncertainty causes networks to flourish, Narayan and Pritchett (1999) argue social capital can alleviate transactional uncertainties, and Michailova & Worm (2003) argue networking is a commonly used way to deal with

uncertainty caused by changing environments. It is therefore plausible that people of Laos, like their Chinese counterparts, relied on social capital as a solid rock in a stormy sea.

**5.2.6.3 Limited legal infrastructure**

Another factor that helped shape the Chinese version of social capital was in the literature review found to be primitive institutions/legal infrastructure (Carlisle & Flynn, 2005; Dunning & Kim, 2007; Krug, 2000; Wong et al., 2007; Yeung & Tung, 1996; Yi & Ellis, 2000). Basically, weak legal frameworks have in China traditionally made it difficult to settle disputes through the legal system – and in this environment personal connections based on trust have flourished (Dunning & Kim, 2007).

The Lao legal system was examined in the literature review in chapter three. Here it became clear that although improvements have been made, significant inadequacies still exist (Gunawardana & Sisombat, 2008; Leung et al., 2010; UNDP, 2006). These include unclear regulations, a lack of implementation of regulations, as well as a mix of different law styles. During the fieldwork conducted for the first case study, one of the features investigated was the extent to which FDIs made use of the Lao legal system. Particular attention was given to examine the degree to which foreign investors relied on legal structures or social capital (for the certainty needed to operate their businesses). Here it quickly emerged that actors did not use the local legal system; and that if it was to be used, it would be used only as a very last resort (R1, personal communication, April 8-19, 2012; R3, personal communication, April 18, 2012). In Laos actors rely on their social capital and reputation, or face, as opposed to legal structures to conduct their business. This is in stark contrast to the situation in more universalist cultures, like the United States, where the need for connections and trust have been sidelined by lawyers and complex legal systems (Putnam, 2001b).

During interviews with R1 a discussion took place about the implications of breaching a contract in Laos. R1 (personal communication, April 8-19, 2012) explained:

*"A contract is only to remember what you agreed. Not worth much more than that."*

R1 (personal communication, April 8-19, 2012) elaborated:

*"If you have a contract you should have it with a trustworthy person. That is the only way. Here people have to be concerned about what they got to lose. If you have a lot of common friends and they hear about a contract breach, then you will be seen as untrustworthy."*

The above statement provides a good example of the social norms and structures that supports social capital. For this system to work, trust is of essence, and trust emerged from multiple sources (both Lao and foreigners) as an important theme in Lao social capital.

In the literature review in chapter three, an investigation took place into the ease of moving goods across borders. It was documented that Laos scores very poorly (the lowest) in the World's bank's (2007) Logistics Performance Index (Leung et al., 2010). It was also discovered that a large informal economy is flourishing, where rules are flexible, and where cases are often dealt with on an individual basis (Djité, 2011; UNDP, 2006). These findings were confirmed during the field-work conducted for the first case study. Here it became clear that one area of great importance for most businesses in Laos is import-regulations. Limited goods can be sourced in Laos, and many supplies have to be imported. However, as revealed through the literature review, importation through official channels can be a rather cumbersome process. When these complexities were discussed with R1 (personal communication, April 8-19, 2012) the following explanation was provided:

*"It is generally a lot more flexible than that. When you arrive at the customs the customs officers may look in the truck, but will not look at the back. Especially if there are heavy things at the front. A truck will have all sort of mixed things in there for all sorts of people. How do they set the duties? It would definitely help to know the customs officers."*

Recently the village of Nong Kiau was connected to mains water. Water up until this point in time had been a scarce resource in the village. In R1's resort, water was traditionally pumped up from the river and then purified through filters installed on the premises. Likewise, discarded water had to be treated before being returned to the river. For these reasons, the toilets in the facilities operated by R1 had traditionally not been connected to the water supply. However, in 2012 the village was connected to mains water, and for that reason it became possible to install traditional Western styled flushing toilets. Since these

styled toilets at the time could not be sourced in Laos – R1 arranged to import these from Thailand (where many advanced products come from). However, as previously explained, importation can be a complex undertaking – but fortunately R1 had a connection close to a border crossing (a manager at a hotel to which R1 channels many tourists). After R1 explained the situation, the manager talked to the custom officials, and R1 could get the goods across the border without any complications. R1 estimated that the importation could have been an expensive undertaking had it not been for the use of social capital (R1, personal communication, April 8-19, 2012).

This example illustrates how limitations in the legal infrastructure encourage the use of social capital. It also provides an example of social capital being transferable – where social networks can be used to benefit or include a third party. In this case R1 would have accumulated social capital credits by bringing business to the local hotel. When he needed a favour in turn, the hotel manager used the social capital that existed between him and the customs officials to help R1 (by bridging the gap between two parties unknown to one another). R1 explained (personal communication, April 8-19, 2012):

> *"Favours are always supposed to be repaid. In the case of the border, I am a regular customer of that hotel, that way I am repaying."*

The assertion that was made in the literature review in chapter three, that rules in Laos are flexible, has now been confirmed. The hypothesis local connections and social capital can lessen the complexities of institutional uncertainty has also been confirmed.

In later discussions, R1 (personal communication, April 8-19, 2012) explained that big business use connections to a greater extent than small operators. R1 explained that big business in Laos would have good reasons to establish connections, as it influences prices and supplies gets cheaper when connections are in place. During the fieldwork it became clear, that an important area for any business relates to simply getting things done. R1 (personal communication, April 8-19, 2012) explained that:

> *"If you are on good terms with the phone company and the internet does not work, then they feel like helping."*

When comparing Laos to Scandinavia, where both R1 and the author originally came from, it became clear that systems in Scandinavia are much more formalised. Here rules apply in every situation regardless of personal relations. The discussion centred on a common acquaintance who enjoys confrontations – to the extent where this person threatened to sue the doctors who was about to perform heart surgery on him. This behaviour can partly be explained through Trompenaars and Hampden-Turner (1998) research which identifies Scandinavia as being highly universalist. According to Trompenaars and Hampden-Turner (1998) universal rules trumps personal connections in Scandinavia – and that can partly explain how this person have been able to have a successful career (and surgery) in spite of the fact that he displays a pattern of confrontational behaviours.

In Asia, however, Trompenaars and Hampden-Turner (1998) argues things are fundamentally different. In Asia people are much more particularist – which means people are inclined to apply rules based on particular situations (e.g. personal relationships). During interviews with R1 it became clear particularism is very high in Laos – and that it is important to stay on good terms with the people who can be of assistance. R1 (personal communication, April 8-19, 2012) elaborated:

*"If something goes wrong connections are important. If road authorities wants to build a road through your property, or if someone wants to build a dam, if some Chinese wants to build a gold mine on your property, or if you have a traffic accident – then connections would be very good."*

Another key area where connections are of essence in Laos relates to the public administration. Here connections can help get approvals and speed things up. R1 (personal communication, April 8-19, 2012) explained:

*"Then it helps a lot if you know someone in the different offices. A lot of practical stuff works better if you know people. Then you can meet them over lunch and get things moving."*

When asked how one would find these people, R1 (personal communication, April 8-19, 2012) explained that it would be difficult for an outsider. For someone who does not know the system and the people involved. R1 believes that because he has been in Laos for a

long time, he has slowly developed connections; something that enables his business to operate smoothly.

While connections are highly beneficial – they are not absolutely necessary for the operation of small businesses. That became clear during an interview with R3 (personal communication, April 18, 2012) who manages a branch of a foreign owned luxury restaurant in Luang Prabang. R3 argued his business was one of the very few, if not the only one, that follows the rules and that pays all its taxes and fees (largely without negotiations). R3 acknowledged his luxury business was in a unique situation that it is rather profitable and could afford to follow the rules. In the social capital literature Bourdieu (1986) and Coleman (1988) makes the comparison between economic and social capital, and argue both types of capital enables holders to accomplish things that would not be possible without it. In the above example, the restaurant relies on economic capital to accomplish desired ends – whereas many other businesses in Laos would use social capital to get things done.

The finding from the literature review that many areas of business and finance in Laos are not yet covered by viable regulations was researched during the fieldwork. An example of this is Gunawardana & Sisombat (2008) argument that state owned banks in Laos suffer from low standards for credit worthiness, ineffective guidelines, and lack of regulatory supervision. In the literature review a hypothesis was developed that, like in China, this would encourage the development of social capital and connections among lenders and borrowers. When enquired, R1 (personal communication, April 8-19, 2012) explained that when taking out a loan local banks require guarantees, most often in the form of land. R1 also explained that lending rules are flexible, and that social capital would positively influence the value assessment of the land used as a security.

R1 (personal communication, April 8-19, 2012) explained about borrowing in Laos that people without social capital in the public finance sector regularly use borrowing circles. Within these, participants can save and borrow from a combined money-pool. It is expensive for the first person to take out a loan, and cheaper if you borrow from the pool later. Participants bid on interests, so initially there will be more bidders and interests will be higher. R1 explained that in the case of a borrowing circle, one participant could potentially borrow the entire pool of money, but only if he bids the highest interest.

Participants that do not need money right away tend to get lower interests when the most eager borrowers have already borrowed. R1 elaborated that the borrowing circles would be managed by someone with accounting expertise. That notes would be taken, but that the borrowing circles otherwise would not involve contracts or be legally binding. These borrowing circles are a good example of social capital, where only trusted members who hold social capital have access. Bourdieu (1986) argues social capital relates to the:

*"Potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance and recognition."*

This is exactly what the borrowing circles described above entails. In this case social capital is a resource that enables holders to borrow money – something that would not be possible without the institutionalised relationships that exist among the members of the borrowing circles.

### 5.2.6.4 Collectivism

Collectivism was in the literature review in chapter two found to be another building block of Chinese social capital (Banfe, 2011; Dunning & Kim, 2007; Hwang, 1987; Lin & Si, 2010; Xiao & Tsui, 2007). People living in collectivist societies are deeply embedded in strong interdependent relationships – and that is something that supports high levels of social capital (Dunning & Kim, 2007; Yeung & Tung, 1996). The literature review in chapter three suggests Laos is a collectivist country (Hofstede, 2007) – and this aspect of social capital development was further investigated during the fieldwork in Laos. R3 (personal communication, April 18, 2012) explained about Lao collectivism:

*"Biggest part is how communal they are. Probably eighty percent of my staff lives with their mates. In one or two rooms and 10 people stay there. Or some live with families. I do not know of anyone who lives on their own, actually. ...people in Australia want their own personal space, even if they live in dorms. That is not by any means the case here. When they get older they build on more rooms so they can add on family and friends so everyone can be together. For me I am much more ingrained to be independent, and….I have to remind myself that I live in a communal culture. And people want to be together for all sorts of reasons, or no reasons."*

R3 elaborated, that being from the Australia, he found it overwhelming to continuously be expected to hang out, to cook food, or sing songs. R3 explained that people in Australia build large houses with fences around to get personal space – whereas people in Laos build large houses to include people.

R1 (personal communication, April 8-19, 2012) confirmed the assertion that Laos is a collectivist society – although R1 argued Laos is less collectivist than China (where he often conducts business). The collective nature of the Lao people was also reaffirmed by a local respondent R2 (personal communication, April 9, 2012), who explained that initially his business was (like almost all other small businesses in Laos) based around his family.

### 5.2.6.5 High Power Distance

In the literature review it was discovered that within the high power distance society of China, powerful actors gains face (*mianzi*) when assisting weaker members of a social capital network (Park & Luo, 2001; Yeung & Tung, 1996); something that has contributed to the importance of (linking) social capital in China (Dunning & Kim, 2007).

Considering Chinese social capital is used as a benchmark for the research in Northern Laos – the concept of power distance was researched here as well. The fieldwork confirmed that Laos is a high power distance society. When comparing Laos with Scandinavia, R1 (personal communication, April 8-19, 2012) explained about Laos:

*"People are quite formal. The hierarchy is steep."*

During the following discussion, the fact that the Crown Prince of Denmark met his wife in a Sydney pub emerged – and R1 explained that people in Laos with high status do not mingle with the masses. R1 elaborated that while power distance in Laos is high; it is not as high as in China. This assertion was supported by observations of many lady-boys; a phenomenon that appears widespread and accepted in Laos. R1 (personal communication, April 8-19, 2012) assured the author that elders within the family hierarchies would not approve of these practices – but that they simply do not have the authority to prevent it (like their counterparts in the Confucian societies of China or Vietnam would).

## 5.2.7 Local definition and concept

While many Asian languages have their own words for social capital - extensive interviews and observations of a wide range of respondents in Laos suggest that the Lao language do not have a specific everyday word for the concept. The research included R1 who has been living in Laos for 20 years and who speaks fluent Lao, an expatriate from Australia who operates a business in Luang Prabang, a large number of Chinese traders operating businesses in Northern Laos (who were interviewed about a translation for *guanxi*), as well as a number of native speakers of Lao. A total of 119 references were made to the local definition and concept of social capital. Selected comments can be viewed in Table 5.5.

**Table 5.5 Selected Comments – Local Definition & Concept**

| Total References | | Selected Comments: |
|---|---|---|
| 119 | R1 | *"Good relationship networking could be a word for Lao social capital. Without that everything becomes impossible."* |
| | R1 | *"Samarki has nothing to do with business, unless we are talking about a socialist economy."* |
| | R1 | *"Hak phaeng gan…is well suited to describe a situation where people drink and get to know one another, even in situations where people drink strategically to build networks. But, as a title for social capital, it will sound…comically. It is not like the word guanxi, which is serious..."* |
| | R1 | *"In Laos they do not have a defined concept, but they still use social capital, and that is important for business people."* |
| | R1 | *"That is what we found at the Chinese market. No matter how many were standing there discussing, no one could think of a word. And that is because there is no word. Guanxi on the other hand, everyone knows it in China, because there is a word."* |
| | R4 | *"She should think about the people also. You need a lot of patience. You need to get to know the people. And then you get to know the right people. Try to find a good friend who can help you run the business."* |

While no suitable local word in the common language could be found for social capital, data from the first case study confirms the phenomenon is important for anyone

conducting business in Northern Laos. During lengthy discussions about a Lao word for social capital, conducted with R1 over a two week period, a number of interesting leads came up – all of which were investigated through interviews with a range of respondents. In the following the main points of this investigation will be presented.

Initial discussion conducted with R1 (personal communication, April 8-19, 2012) suggested the word *gin bia*, which can be translated as "drinking beers", could potentially be used to described the concept of social capital. This being the case as an important part of networking with people in Laos involves drinking beers. When enquired about how foreigners establish connections in the first place, R1 (personal communication, April 8-19, 2012) explained:

*"Well that is a problem many foreigners have. You need to drink beers with people when you get the chance. Get to know them. But foreigners struggle here. Do not want to waste time. We saw the two Swiss tourists in the village when we went hiking. They did not want to sit around and drink with the locals. Foreigners often have more work ethics."*

This was confirmed through observations in Laos – where foreigners frequently were seen declining invitations for social interactions. During the fieldwork it became clear that one must put aside considerable time for socialising in order to effectively develop social capital in Laos. R1 (personal communication, April 8-19, 2012) explained:

*"It is often not just a single toast – but rather binge drinking. Everything comes in twos."*

Even so, *gin bia* was quickly discredited during discussions with R1 and his business associates. While *gin bia* forms an important part of the process of networking, it is not used as a word for social capital among locals. Another term investigated was "good relationship networking". R1 (personal communication, April 8-19, 2012) suggested:

*"Good relationship networking could be a word for Lao social capital. Without that everything becomes impossible. Not just with powerful people but as much harmony as possible, both internally and externally."*

Based on interview responses from R1 (personal communication, April 8-19, 2012), his staff, his local wife, and his business associates – it became clear that good relationship networking is an essential part of Lao social capital; that good relationship networking is essential to get things done in all aspects of business and personal life. The importance of good relationship networking was also confirmed through a number of observations involving R1 – where a significant part of any given day would be spent visiting and chatting to people. Previously an acquaintance known to both the researcher and R1 in Scandinavia was discussed. This acquaintance made a successful career by being aggressive, confrontational, and by relying on his abilities (as opposed to social networks). R1 (personal communication, April 8-19, 2012) made it clear that:

*"You cannot act like that here."*

During interviews with the Lao head manager at R1's resort, R4 (personal communication, April 14, 2012), the importance of good relationship networking was further reinforced:

*"I know a lady from Switzerland; she came to Laos to open a business and did not know Laos well. She just opened a restaurant and just did it bom-bom-bom in one or two months. But she did not know anything, how much to pay for tax, salaries, electricity. And if things were dirty outside she got angry and did not understand why. She should think about the people also. You need a lot of patience."*

During the discussion it became clear that this business failed and the investor moved back to Switzerland. R4's advice for foreigners planning to conduct business in Laos was to spend time with people, to drink coffee and beer, and to get to know key actors in the industry. When discussing connections with government officials, R4's advice was to develop relationships in that field as well. When the author provided examples of the formalised ways in which many businesses interact with governments in Australia, R4 (personal communication, April 14, 2012) explained:

*"Here it is totally different. Here you need to get to know the people."*

When queried if business connections and government officials expected something in return for their assistance, the head manager responded that they help each other a lot, that sometimes they have get-togethers that most foreigners do not know about. This was later

confirmed by R1 (personal communication, April 8-19, 2012) who explained that these get-togethers involves weddings and other ceremonies.

Another aspect of good relationship networking was initially observed on the author's first visit to Laos in 2006. Over the years, tourists who went on tours with R1's company were surcharged approximately ten Australian dollars – funds used to purchase text books for remote schools in Northern Laos. Upon the author's first visit to Laos in 2006, the author participated in school book donations. Here the author and R1 would drive to remote communities, often via rather precarious roads, and each time we came to villages large enough to sustain a school, we would pull over and donate books. R1 would always clearly state what group of tourists had provided the funds for a given donation – and everything would be photo documented (and photographs would be emailed to the donors).

Some donors became so impressed with the effectiveness of this system that they would donate extra money. One donor provided approximately AUD 6000 which was used to build extra rooms at a local school. A sign was placed in front of the school with the name of the donor. Remaining funds were used to purchase equipment for the local hospital, something R1 arranged to import from Thailand. Again, R1 never took credit for the funding, and would always clearly state where donations came from. Nevertheless, his Lao wife (R5, personal communication, April 17, 2012) was certain that the social role of the company had accumulate social capital; something that made it easier to get needed government stamps and approvals when a need arose. This was later confirmed by the R1, although he thought the benefits were limited, because the majority of donations were made in remote areas where the receivers would have little influence on government decisions.

However, in spite of the importance of good relationship networking in Northern Laos, the term was later discredited as a name for Lao social capital. This was done after extensive consultations with all respondents of the first case study. While good relationship networking forms an essential part of social capital development in Northern Laos, it was not used among locals as a *name* for social capital. This assertion was confirmed through interviews of 17 Chinese traders at a market in Luang Prabang (R6-R21, personal communication, April 16, 2012) who were questioned about a local translation for *guanxi*.

Another possible name for Lao social capital was the word *samarki*. This phrase was discovered by the author during the literature review of Lao history. When enquired, R1 (personal communication, April 8-19, 2012) explained that *samarki* relates to social capital in that it indicates collectiveness or togetherness – that it describes elements important for social capital. However, when comparing *samarki* to the Chinese version of social capital, *guanxi*, R1 (personal communication, April 8-19, 2012) explained:

*"The word does not hit goal."*

During supplementary interviews conducted after the fieldwork in Laos – R1 (personal communication, November 2, 2012b) explained *Samark* is the same as "signing up" or "apply" and that it refers to making a commitment. R1 explained the concept of *samarki* through the example of a freetown, Christiania, which was established in the early 1970s in Copenhagen. Back in 1974 a large group of hippies occupied an empty army field in Copenhagen - and since then free minded people have been living in this close knit community (based around the principles of peace, love and socialistic ideals). Traditionally a great deal of sympathy existed for their cause within the Danish community, as well as within successive Danish governments, and for that reason Christiania still operates as a freetown today. R1 explained that within this community there would be a great deal of *samarki* – but not in the sense of social capital useful for business in Laos. R1 (personal communication, November 2, 2012b) explained:

*"Samarki has nothing to do with business, unless we are talking about a socialist economy. The word was dominant under the revolutions in Indochina (both Laos and Cambodia) and due to historical reasons does not sound right for some people, unless it is confined to family and friends. It is perfectly all-right to arrange a samarki-reunion, but not in business or work environments."*

R1 (personal communication, November 2, 2012b) suggested the author should forget about *samarki* as a word for social capital. This was supported by the other respondents in the first case study who unanimously confirmed that *samarki* could not be used to describe social capital in Lao business.

In the search for a local word for Lao social capital, seventeen interviews were conducted at the Chinese Market in Luang Prabang. This market is largely operated by Chinese trade people, and comprise of numerous small stalls where a wide range of goods imported from China are sold to Lao buyers. Most of the Chinese traders speak fluent Lao and respondents interviewed were selected from R1's network of suppliers. The researcher and R1 walked from stall to stall and interviewed the traders. Prior to these interviews, a Chinese academic in Australia translated the word *guanxi* and the social capital components of *mianzi* and *renqing* into Chinese characters. These translations were written on a sheet of paper that was brought to the interviews at the Chinese market. The respondents in the Chinese market did not speak much English, but R1 took on the role of translator and conduct the interviews in Lao. The respondents in the Chinese market were asked if they could translate the Chinese characters for *guanxi*, *mianzi* and *renqing* into Lao.

Upon this request, respondents would look puzzled. The majority of the traders would call in additional family and friends in the vicinity of their businesses to discuss. Many of these discussions were quite frantic, with respondents intrigued by the challenge to find an answer to the query. In each of the group consultations – respondents would make a number of suggestions that would quickly be dismissed. This process of group discussions would be repeated seventeen times. In one of the interviews a professional translator was interviewed. Through these interviews it became clear that the Chinese traders knew exactly what *guanxi*, *mianzi* and *renqing* meant, and while they all agreed they used connections in Laos, no one could find a suitable Lao word to describe the concepts (R6-R21, personal communication, April 16, 2012).

Based on these unsuccessful attempts to find a translation for social capital, a realisation started to emerge that the Lao language was likely not to have a common word for the concept. This realisation was reaffirmed during an interview conducted at R1's (personal communication, April 8-19, 2012) residence:

*"I will compare it to the Ten Commandments, where thou shalt not kill. It is possible to have commandments like that in a culture, but it is also a possibility that people understand this all by themselves, that of course you should not kill. In Laos they do*

*not have a defined concept, but they still use social capital, and that is important for*
*business people."*

At the end of the two weeks of field-work that was conducted in Laos for the first case study – it became clear that no direct translation of social capital can be made in the everyday Lao language. It also became clear that although the concept of social capital has not been defined with words in the common Lao language, the principles of networking and social capital are very important. When R1 (personal communication, April 8-19, 2012) was asked if the concepts exist, just without a name, the following response was obtained:

*"Yes, that is my understanding. That is my clear understanding. And people are not conscious about it. That is what we found at the Chinese market. No matter how many were standing there discussing, no one could think of a word. And that is because there is no word. Guanxi on the other hand, everyone knows it in China, because there is a word."*

During lengthy discussions with R1 (personal communication, April 8-19, 2012) about the reasons the Lao language does not have a specific word for social capital, when other Asian languages like Mandarin does, R1 suggested that the cultures with advanced and nuanced languages are the ones that have the philosophers and poets who writes and spend time thinking about these things. When asked if there is, or has been, a lot of philosophers in Laos the response was (R1, personal communication, April 8-19, 2012):

*"Not at all (laughs). Yesterday you experienced the complexities in a meal preparation. That is why the countries mentioned got words for these things and Laos does not. China is, and has been for thousands of years, way more intellectual. In these countries people have thought about it. Written about it. That is not the case in Laos."*

Following the fieldwork in Laos, the author and R1 would stay in close contact and continuously debate findings that emerged from the data analysis. In November 2012 the author received an email with an interesting lead from R1 (personal communication, November 2, 2012a):

*"Something struck like a lightning: there actually is a word that is similar to guanxi – "hak phaeng gan". It is not exactly the same, because it suggests things are informal, but that often describes business. The word is not super. But (I think it) still hits bullseye, just from a bit of a twisted basic ankle. It is a word that describes how two mountain farmers build a relationship when they get drunk, and more sophisticated people in Vientiane who drink Heineken would not use the word, but they still knows what it means."*

Following this discovery, R1 (personal communication, November 2, 2012b) would discuss *hak phaeng gan* with the locals who participated in the first case study (including the Chinese traders at the Chinese market in Luang Prabang). Simultaneously the researcher (who works as a lecturer) would discuss the concept with Lao students in Adelaide.

Through these investigations, R1 (personal communication, November 16, 2012) and the researcher both came to the conclusion that *hak phaeng gan* did not accurately describe the type of social capital that would be used in Lao business networks. R1 (personal communication, November 16, 2012) explained:

*"Hak phaeng gan cannot be used anyway. It is well suited to describe a situation where people drink and get to know one another, even in situations where people drink strategically to build networks. But, as a title for social capital, it will sound...comically. It is not like the word guanxi, which is serious. I realised that. Ha phaeng gan is not strong enough to institutionalise."*

After further discussions, it became apparent that *guanxi* is a refined title for social capital in China – whereas *ha phaeng gan* lacks significance. While *guanxi* operates as a respected institution that is widely used to accomplish desired goals in Chinese – *ha phaeng gan* is basic, and although it relates to relationships, is mainly a term used in remote communities.

That is, while *ha phaeng gan* is the closest Lao term identified through the research that could be used to describe social capital in Northern Laos – it is not a concept that is used in business (either among FDIs or among locals in towns and cities where most business

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transactions takes place); a fact that explains why the term did not emerge during the fieldwork for the first case study in Laos. While *hak phaeng gan* has some potential to describe relationship development in rural and remote tribal communities – it cannot be used for this study which focuses on business management. However, much work is being undertaken by NGOs in remote rural communities – and for these organisations *hak phaeng gan* could possibly be worthwhile to investigate further as an avenue to reach desired results.

In summary, during the fieldwork multiple sources confirmed, and ample evidence was found, that social capital is an important factor in the Lao business environment. It was also documented, that in spite of the importance of the concept, no specific word in the everyday Lao language exist. For that reason the author decided to use the academic terminology and simply translate social capital into Lao:

  *"Teun tang sangkhom."*

To ensure *teun tang sangkhom* was the correct translation of social capital – the phrase was tested with a faculty member (one of R1's connections) at the National University of Laos in Vientiane. The following question was asked by R1:

*"… is writing a PhD on social capital in Laos. We have some hypothesis that we need tested. We could use statements of someone of trustworthy intellectual capacity/authority to support theories. I think you have that. If an explanation of your educational background is attached, your interpretation of some issues would carry some weight. Can you help with that? Do you know someone else with an academic career in human sciences who could lend a name to give assumptions weight?"*

Following this request a discussion took place with the faculty at the National University of Laos in Vientiane; and during this discussion it became clear that *teun tang sangkhom* was the correct translation for social capital into Lao.


## 5.3 Reflection and revised conceptual framework

Reflection forms an integrated part of the structured-case methodology; it enhances the rigor of the research and helps prevent the tendency of researchers to rely on confirmatory

evidence (Caroll & Swatman, 2000). Reflection for this case study took the form of feedback from key respondents, a review of the methods used to collect the data, as well as a review of extant literature relevant for the key findings. The final part of the first case study will be to develop a revised conceptual framework that takes into account the accumulated findings (and this updated conceptual framework will form the basis for the second round of research). This is illustrated in Figure 5.3.

**Figure 5.3 Interpretative structured–case Model (adapted from Caroll and Swatman, 2000, p. 240)**
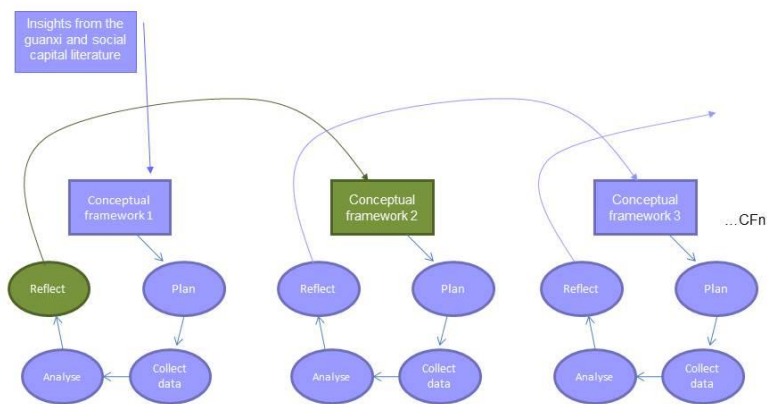


The first part of the reflection relates to feedback from respondents. In July 2012 the researcher arranged a series of additional overseas meetings with R1 and R5. During these meetings reflection took place in the form of feedback on preliminary findings and data interpretations. Additional reflection took place through ongoing communication (via email and telephone) with respondents until the first case study was finalised almost a year later. To ensure a comprehensive verification of all the results in their entirety, a copy of the ultimate research findings and revised conceptual framework was uploaded to a forum on the internet; something that allowed key respondents to provide feedback.

The refection for the first case study also focused on the methods used to collect and analyse the data. A key finding here relates to the size of the first case study; which involved two weeks of intensive fieldwork in Northern Laos. While a large initial case

study provided a good foundation for the research, it did result in large quantities of data that took almost a year to sort through. For that reason, it was decided to be more targeted, and to collect less data, for the remaining case studies.

The final part of the reflection relates to seeking clarification from the literature (Caroll & Swatman, 2000). The original hypothesis for this study was that social capital in Laos would resemble social capital in China. This assumption was based on the literature review that was undertaken in chapter two and three. While many parallels were identified between social capital in China and Laos – some differences were also discovered. While most of the literature reflection took place during the data analysis, additional reflection will be undertaken below. During this investigation an even deeper exploration of the extant literature will be made to investigate the extent to which existing theories explain the use (and origins) of social capital among FDIs in the Northern Lao business environment. Based on the analysis and reflection methods used, a revised conceptual framework will be developed. To ensure internal justification, the rationale behind any changes to the conceptual framework will be clearly documented.

**Local definition and concept.** During the fieldwork multiple sources confirmed, and ample evidence was found, that social capital is an important factor in the Lao business environment. It was also documented, that in spite of the importance of the concept, no appropriate word in the everyday Lao language could be found for the concept. Data from the first case study explains this through the fact that compared Confucian societies like China, Japan, Korea and Vietnam – the people of Laos have traditionally had few thinkers and philosophers who defined concepts. The most suitable word for social capital was found to be:

 *"Teun tang sangkhom."*

This is a direct translation of social capital into Lao; something that is no different from what happens in many other languages e.g. Sozialkapital in German, capital social in Spanish, or social kapital in Danish (Schreiber, Polsterer, Stocker, Grasenick, & Melidis, 2012; Svendsen & Svendsen, 2006; Van Oorschot & Arts, 2005).

A key difference between social capital in China and Laos was found to originate from the lack of a local definition in the everyday language in Laos. In China, because the concept

of *guanxi* has been recognised and identified as a mainstream institution in society, people actively and consciously build relations and use these relations as a deliberate strategy to accomplish desired results. This differs from the situation in Laos, where the concept has not been recognised with terminology in the everyday language, and where people are less conscious about their use of social capital. It is similar to the difference between a rule and a norm; where in China people adhere to clearly defined rules, whereas in Laos people adhere to less clearly defined norms. That is, while social capital is extensively used in both societies – people in China appear to be more aware of what they are doing.

**Bonding social capital.** Data from the first case study documents bonding social capital forms an important part of social capital in Northern Laos. Family members were found at the core of the Lao bonding communities – with other people (with whom a given actor has bonds) on the fringe. This finding from Northern Laos resembles the situation in China (Park & Luo, 2001; Turner, 2007). Trust was found to be a key reason why people in Northern Laos place family at the core of their bonding communities.

**Bridging social capital**. The fieldwork documents bridging is a critical component of social capital in Northern Laos. Bridging social capital allows actors to move between the closed bonding groups and bridge the gap to outsiders (Putnam, 2005, 2009). It was documented that this form of social capital is relatively easy to establish in Northern Laos (as the local mentality is to be open and welcoming). However, while the initial gap between insiders and outsiders relatively easily can be bridged, getting to a stage where strong social capital can be constructed will take time and patience.

**Linking social capital.** A key difference between the origins of *teun tang sangkhom* in Laos and *guanxi* in China relates to state involvement in business. In China the literature documents a high degree of state involvement in business which encourages businesses to develop linking social capital (Deng & Kennedy, 2010; Pearce & Robinson, 2000; Wang & Ap, 2013; Yeung & Tung, 1996); whereas in Laos the government has less involvement in business and allows firms to be privately owned in most industries (something that lessens the need for linking social capital). Due to this relative clear separation between government and business in Northern Laos, linking social capital was not found to be as dominant as bonding and bridging social capital in Northern Laos (for small to medium sized businesses).

**Moral obligations and face.** While the prime reason for social capital in China is material gains (Grainger, 2010; Lytras et al., 2005; Wong et al., 2007) – good relations surfaced as a critical factor in Northern Laos. That is, while both material gains and strong personal relationships are important in both China (Lee & Dawes, 2005; Wong et al., 2007) and Northern Laos – the importance seem to be tilted toward material gains in China, whereas the importance seem to be tilted toward the relationships as an end in itself in Northern Laos.

A key focus of business relationship in Laos is on harmony and politeness – essential ingredients for good relations and for the preservation of *na* (face). While the concept of moral obligations and face in China has been identified as two connected, but still distinctive concepts, the research revealed that moral obligations and face are more intertwined and harder to separate in Laos. During the research it became clear that when the topic of face was discussed in Northern Laos – so were the concept of moral obligations (in particular politeness). For that reason, the concepts of face and moral obligations will be combined in the revised conceptual framework (which will be provided shortly).

**Confucianism**. During the research into reasons and origins of social capital in Northern Laos it was discovered that a key difference between the origins of *teun tang sangkhom* and *guanxi* relates to Confucianism. Although the Lao people originated from China (Lee, 2007), Confucianism was found to be absent in Lao society, something that contributes to a lack of philosophy, discipline and high work ethics in Laos (key attributes of Confucian societies). The finding that Laos is not a Confucian society was confirmed by the literature (Chaves, 2002; Kim & Park, 2003; Kim, 2007).

**Uncertainty and change.** Uncertainty and change was found to be factors that have contributed to social capital development in Laos. Lao history has been marked by transformations – the people of Laos have been forced to migrate and change their livelihoods due to armed conflict, instability and radical political and economic changes. The historical changes and developments mirror those of China; with civil war, communist takeover, political and economic centralisation, and later economic reform – just within a shorter timeframe. The extant literature confirms that people exposed to

uncertainty and changes tend to counterbalanced this by strong reliable social networks (Cook, 2005; Michailova & Worm, 2003; Narayan & Pritchett, 1999).

**Limited legal infrastructure.** During the fieldwork it was documented that weak legal frameworks in Laos, like in China, have made it difficult to settle disputes through the legal system (Gunawardana & Sisombat, 2008; Leung et al., 2010). In this environment the fieldwork documents personal connections based on mutual trust compensate for legal deficiencies. This finding is confirmed by the extant literature where Michailova & Worm argue (2003) that tight personal relationships, or social capital, are inevitably reinforced in contexts where people are not protected by law.

**Collectivism**. The fieldwork confirmed the hypothesis that Laos is a collectivist country; and that the situation in Laos mirrors that of China where people are deeply embedded in strong interdependent relationships – something that supports high levels of social capital (Dunning & Kim, 2007; Yeung & Tung, 1996).

**High Power Distance.** The fieldwork confirmed the hypothesis that Laos is a high power distance country (although power distance was not found to be quite as high in Laos as in China). In China the literature documents powerful actors gains *mianzi* (face) when assisting weaker members of a given social capital network (Park & Luo, 2001; Yeung & Tung, 1996); something that contributes to the importance of linking social capital in China (Banfe, 2011; Dunning & Kim, 2007; Hitt et al., 2002). While this finding was mirrored during the fieldwork in Laos, and while powerful actors do gain face when they provide generous acts in Northern Laos, it did not seem to be as important as is the case in China. That is, it is unclear whether high power distance has helped sculpt Lao social capital. This will be further investigated in the next case study.

The main findings from the first case study conducted in Northern Laos are illustrated in the conceptual framework provided in Table 5.6.

**Table 5.6 Revised conceptual framework – social capital components**

| Social capital components | Laos |
|---|---|
| Local definition | Teun tang sangkhom is a relationship founded on trust and strong personal relationships. Successful business operations require good networks based around obligatory principles (and good relations with regular social interactions are at the core of these). In business teun tang sangkhom can be used as an investment in social relations to help facilitate returns in the marketplace. |
| Bonding | Teun tang sangkhom operates in close-nit communities where members bond through group identification. Family members are at the core of the Lao bonding communities, with other people (with whom actors have bonds) on the fringe. |
| Bridging | The gap between insiders and outsiders can relatively easily be bridged. However, one must work hard to turn the initial weak social capital into a strong bond. Continuous social interactions, repeated business, trustworthy operations, fulfilment of obligations, and intermediaries are ways in which the gap between insiders and outsiders can be bridged. |
| Linking | Due to a relatively clear separation between government and small to medium businesses, linking social capital was not found to be as dominant as bonding and bridging social capital among small to medium businesses. The research revealed that linking social capital would be needed the most when businesses expand into sectors controlled by the government. |
| Face and moral obligations | Na refers to face and forms part of teun tang sangkhom. Na will be preserved when politeness is maintained, when actors are seen as reliable, and when they meet their obligations. Na can also be gained through soft favour exchanges or gift giving associated with food or weddings. It is essential to have and preserve na (face) in order to build social capital networks. |

The primary aim of this research is to identify the form and use of social capital among FDIs in Northern Laos. A secondary aim of the study, which was investigated to a lesser extent, is to examine the origins of Lao social capital. Table 5.7 summarises key factors that have helped shape teun tang sangkhom in Northern Laos.

**Table 5.7 Revised conceptual framework – social capital origins**

| Social capital origins | Laos |
|---|---|
| Confucianism | Negligible. Confucianism has not influenced Lao social capital (and will for that reason not be researched any further). |
| Uncertainty & change | Lao history has been marked by transformations; the people of Laos have been forced to migrate and change their livelihoods due to conflict, instability and radical political and economic changes. Uncertainties, the Lao people have counterbalanced by strong reliable social capital networks. |
| Limited legal infrastructure | Strong personal networks, based on mutual trust and obligatory principles, were found to counterbalance shortcomings in legal infrastructures. |
| Collectivism | Laos is a collectivist country where people are deeply embedded in strong interdependent relationships; something that reinforces the need for norms, trust, and social relations (which also forms part of teun tang sangkhom). |
| High power distance | Although the data suggests high power distance has contributed to the distinct version of social capital that exists in Laos – the data is not yet conclusive (this will be further investigated in the second case study). |

## 5.4 Summary – case one

The first case has now reached a conclusion and a refined conceptual framework emerged from the first round of research. Throughout the first case study a number of important similarities and differences between *guanxi* and *teun tang sangkhom* were identified. The revised conceptual framework formed the basis for the second case study which was conducted a year later in April 2013 (and which will be presented in the next chapter).

# Chapter 6 - Case Two

The structured case methodology prescribes a cyclical approach to case study research (Caroll & Swatman, 2000; Koeglreiter et al., 2012). This chapter will cover the second research cycle in that process. The chapter begins by outlining the setting and planning for the research that took place before the fieldwork commenced. It then moves on to data collection and analysis – and in the final part of this chapter a revised conceptual framework will be developed based on the findings from the second case study.

## 6.1 Case two: planning and data collection

The second round of research was based around four FDIs in Northern Laos. In line with the structured-case methodology (Caroll & Swatman, 2000; Koeglreiter et al., 2012) the topics researched were similar to those of the first case; the key difference being the revised conceptual framework that evolved from the discoveries made during the first case study.

Throughout the second round of research the process of data and methodological triangulation was further advanced – something that added to the robustness of the conclusions reached (Yin, 2009). While the first case study was based around one business and included a total of 21 respondents; the second round of research strengthened the generalisability of the data by examining an additional three separate businesses and four separate respondents.

### 6.1.1 Fieldwork and setting

Following on from the first round of research, the author revisited Northern Laos for a two week period in April 2013. After this initial fieldwork, ongoing telephone and email communication would be conducted with key respondents until the second case study was completed in December 2013. During the field-work the researcher conducted extensive interviews with, and observations of, the respondents and their associated businesses. The researcher travelled considerable distances around Northern Laos to meet and observe people and artefacts linked to their businesses.

## 6.1.2 Participants to the research

The first respondent was a Dutch national (R22) who operates a company based in Luang Prabang with branches in different locations around Laos. R22's business employs 46 staff and has diversified from tours into other sectors (like catering and land investments). The FDI responsible for this venture first came to Laos as a tour leader for a Dutch company. During these tours, R22 came across a local business owner who was looking for an investor – and a partnership agreement was reached in the knowledge that the tourism business could be taken a lot further through the use of Western business practices. R22 became a FDI in 2004.

The second respondent (R23) is a German national who for many years has been operating hotels in Germany. During travels in 2003 he discovered the wonders of Luang Prabang. After R23 returned to Germany, he could not get a budding idea of establishing his own hotel in Luang Prabang out of his mind, and R23 decided to go back to search for a good location to build a hotel. Three weeks of fruitless searches went by. Then, during an informal chat with a local at the shore of the Mekong River – R23 discovered that the local's uncle had a house for sale in Luang Prabang. The next day a meeting was arranged with the seller – and it turned out to be a dream come true; a property in the heart of Luang Prabang overlooking the Mekong River. R23's a new upmarket hotel opened in Luang Prabang in 2006.

The third respondent R24 provided specific information on linking social capital within the Lao tax system and this respondent asked to be completely anonymous. That is, no information will be revealed about the respondent's origin or the business operated by this source.

The fourth respondent (R1) also participated in the first case study. He was included in the second round of research, as he was considered one of the most experienced and knowledgeable FDIs in Northern Laos on the topic of social capital. The inclusion of three additional respondents and their businesses (from different countries) enhances the validity of the conclusions drawn (Bailey, 2007). Furthermore, the inclusion of R1 in the

second round of research enhances the reliability of the findings – as the same respondent and business was measured at different points in time (Bailey, 2007).

## 6.2 Data collection and analysis

In the following the findings from the second case study will be presented. As recommended by Caroll and Swatman (2000) and Yin (2009), the conceptual framework that emerged from the first case study will now be used to guide the research and data-analysis. The process of conducting case studies based around refined conceptual frameworks will be repeated until a point of data saturation has been reached (Caroll & Swatman, 2000). To ensure internal justification, the rationale behind any changes to the conceptual framework will be clearly argued and documented.

Throughout the following three sections of bonding, bridging and linking social capital, a number of actions that can generate social capital will be identified. Throughout these sections, it is important to be aware that the actions listed are not mutually exclusive. For example, actions that can assist in the development of bonding or bridging social capital, can also assist in the development of linking social capital. The researcher has endeavoured to list the social capital insights under the headings they have the most attachment to.

### 6.2.1 Bonding context

In the first case study it was documented that bonding forms an important part of social capital in Northern Laos. This finding was reaffirmed through the second round of research; family members were found at the core of the Lao bonding communities with other people (with whom a given actor has bonds) on the fringe. A total of 28 references were made to bonding social capital in the second round of research. Selected comments made during the second case study can be viewed in Table 6.1.

**Table 6.1 Selected comments – bonding social capital**

| Total References: | Selected Comments: | |
|---|---|---|
| 28 | R22 | *"The family bond is strong"* |
| | R1 | *"When business and friendship is mixed, it creates some form of bonding"* |
| | R22 | *"Ah…..we are pi-nong, we are family, and we help each other"* |
| | R1 | *"If you have developed a relationship, then it is embarrassing if you start to trade with others"* |
| | R22 | *"It all comes together to the social. What I realised (is) you cannot live isolated in Laos"* |
| | R1 | *"Friendships makes it more difficult to change suppliers"* |

Most findings from the first case study (relating to bonding social capital) were replicated in the second round of research. However, one area where differences emerged was in regard to the use of bonding and trust within the family. In the second case study, the respondents relied less on bonding within families to run their businesses. Even so, during the second case study bonding was (again) firmly established as an important feature in Lao social capital.

R23 (personal communication, April 15-26, 2013) explained the significance of bonding through an example of a boarding-house belonging to his business. Here twelve of his non-married staff live together with communal cooking, eating, and drinking. The house has been fitted with a TV room, music equipment, a badminton court, and has sufficient room for friends to come and visit – all factors that enable staff in the business to bond (and something R23 argues works very well for staff motivation). That is, while R23 did not employ whole families, where bonding naturally occurs, he did substitute this lack of kinship ties by setting up structures to cultivate bonding among his staff.

R22 (personal communication, April 14-28, 2013) described Lao family bonds as strong and argued the locals even have a word that could be used to describe social capital within

the family unit. R22 (personal communication, April 14-28, 2013) explained that Lao will say:

*"Ah…..we are Pi-nong, we are family, and we help each other. "*

An example of reciprocity within bonding networks was provided by R22 (personal communication, April 14-28, 2013). R22 explained that he helped set up businesses and arrange employment for his Lao family. This includes his wife's brother who is employed as a driver, the sister who received help to set up a small café, another sister who arranges food for groups of tourists, the mother who was trained to manage a restaurant, and the oldest brother for whom R22 borrowed money to establish a restaurant. Later, when R22 contracted dengue fever, his family never left his side. During this difficult time, his Lao family brought him food, oiled his legs, and provide massages to smooth the pain. R22 pointed out that he would never receive, nor expect, such care from his Dutch family. This example provides a good example of bonding social capital, where first R22 helped his family, and later this was repaid through extraordinary help when a need arose.

Another illustration of the importance of bonding in Lao society relates to R23's employment policies. R23 often discovers new talents when dining or visiting other establishments. While R23 conducts initial interviews with prospective staff, the ultimate decision whether employment will be offered rests with his workers. R23 (personal communication, April 15-26, 2013) explained:

*"It is important they match the collegial and social networks."*

Again, this is an example of bonding social capital in Lao society; something that, when tapped into, can help promote cooperation. It is possible for R23 to be more selective in his staffing selection, as he is not locally married (and for that reason does not have an obligation to employ family). While R23 would not employ a whole family where bonding would naturally occur, because he needs specialist skills for his upmarket hotel, he substitutes family bonds through the encouragement of bonding in the workplace. This was further illustrated by his policies toward his cleaning staff. Here R23 (personal communication, April 15-26, 2013) explained:

*"The salary is important, but the most important part is that they enjoy their workplace and how their colleagues are. That is important. For example, when a room is being cleaned in Germany you would have one or two doing it, but here you have five so that they can talk and enjoy themselves. The job is okay, but for them the more important aspects of working are social."*

After this was brought to the researcher's attention, an observation was later made at R1's resort; where teams of five or six staff would also clean bungalows together. The importance of bonding in the workplace, and the benefits for cooperation that will follow, was further explained by R23 (personal communication, April 15-26, 2013). Here it became clear that R23 spends a lot of time with his Lao staff where he encourages social interactions. Staff are often invited to R23 house where he teaches them about wine. He also arranges staff excursions that involve picnics and movie watching. This is relevant for the social capital discussion, because it has material benefits for R23. His commitment to bonding, and his provision of favours to staff (in the form of wine, excursions, facilities and more), is repaid through a highly committed workforce that is available whenever a need arises (day or night). Another benefit of the strong bonding that exists within his operation is the fact that during the nine years of operations, there has not been a single staff member leaving.

During the first case study the fieldwork documented that one of the routes to bonding social capital is to continuously cultivate social capital networks. Multiple sources in the second case study reaffirmed the importance of ongoing interactions for social capital. R23 (personal communication, April 15-26, 2013) explained that he always makes an effort to catch up with people in his business network e.g. by inviting them out for lunch and dinners; something echoed by R22 (personal communication, April 14-28, 2013) who explained:

*"It all comes together to the social. What I realised (is) you cannot live isolated in Laos…If you want to do business with Lao people you need to be a sociable person. You need to take part in social life."*

The importance of social interactions is highlighted in the literature, where Boase (2003) argues relationships are the currency of both business and social life in Laos. It was also

echoed by R1 (personal communication, April 14-28, 2013) who pointed out that social capital increases the durability of business relationships:

> "If you have developed a relationship, then it is embarrassing if you start to trade with others. The more the shopkeeper has developed a relationship, the more difficult it is to change; it is a way of cementing the business relationship."

Another aspect of bonding social capital relates to social interactions through ceremonies. In the first case study it was discovered that attending weddings forms an important part of bonding in Northern Laos. When R23 (personal communication, April 15-26, 2013) was asked about weddings he responded:

> "Yes, all the time. In one week I went to 4 weddings. But it doesn't matter, if it is a wedding, Baci, or another ceremony, I got the policy that I always go. I have even been to two weddings on the same day."

That is, as was documented in the first case study, social capital can be nurtured through participation in ceremonies. R23 explained he would not stay for a long time, just enough to pay respects, have a drink, and leave a gift (wedding envelope with cash).

Other ceremonies, like *Bacis*, were also found to be important avenues to bond with one's network. R1 (personal communication, April 14-28, 2013) explained that *Bacis* is an animist ritual, older than Lao Buddhism, which is used to celebrate important events. The aim of the ceremony is to strengthen the equilibrium of 32 spirits of the soul – and it supposably builds harmony and balance, ensures good luck, good health, and success. *Bacis* can take place for a business opening, a newborn child, or any other important event. The ceremony is performed by an elder of the community – and during the ceremony strings are tied around people's writs which are carried for a minimum of three days. R22 (personal communication, April 14-28, 2013) explained *Baci*s as community gatherings to provide a blessing to a person, a thing, a place, or a time (like new-year). R22 (personal communication, April 14-28, 2013) emphasised the importance of *Bacis*:

> "If you are invited to a Baci for another business, it is well recommended you go there. Because that is something people see of great importance in non-financial matters, in spiritual support."

Attending *Bacis* not only strengthens the bond between actors – but it also creates an obligation of reciprocity. That is, when an actor provides spiritual support, that then creates an obligation on part of the receiver to later return some favour. When R1 was asked if getting invited to *Bacis* meant one was becoming part of the community – R1 confirmed this to be a step in the right direction. R1 (personal communication, April 14-28, 2013) elaborated:

*"I don't think one would make one (Baci) for a business connection by itself, unless there was a reason, for example in connection with an opening ceremony, and sometimes that is done in business. If you open an office, then you would do such a ceremony and then there would be nothing more natural than inviting the business connections."*

Based on the discussion so far, it is clear that social interactions are very important for bonding social capital in Northern Laos. This was confirmed by all respondents in both the first and the second round of research. It was also confirmed by the extant literature, where Boase (2003) argues that in Lao culture social affairs and work are woven together in a seamless pattern; that the foreigner who tries to limit work to his office will fail in his endeavours. Through a further examination of the literature, it became clear that this focus on mixing business and friendship resembles the situation in neighbouring countries, where it has also been argued business relationships ideally should evolve into friendship to ensure durability (Chase, Nording, & Thongyou, 2005; Lee & Dawes, 2005; Purchase & Phungphol, 2008; Wong et al., 2007; Yeung & Tung, 1996).

All in all, bonding social capital has been documented to be important for all the small to medium businesses in Northern Laos that have participated in the research. That was a key finding from the first case study, and it has now been reaffirmed through the second round of research. Respondents who have married locals tend to incorporate their families into their businesses – whereas respondents who have not married locals tend to substitute kinship with other bonding structures.

## 6.2.2 Bridging context

It has now been documented that bonding social capital naturally occurs in close nit communities in Northern Laos. Through bridging social capital it is possible for outsiders

to gain access to (and even become part of) these networks (Beugelsdijk & Smulders, 2003; Grafton, 2005; Putnam, 2005, 2009). During the second round of research a total of 30 references were made to bridging social capital. Selected comments can be viewed in Table 6.2.

**Table 6.2 Selected comments – bridging social capital**

| Total References | | Selected Comments: |
|---|---|---|
| *30* | *R22* | *"You play for a long while without asking favours"* |
| | *R23* | *"Whenever I meet someone, I give my card and I call them later"* |
| | *R1* | *"...they will think about who it makes sense to socialise with, not just who they are friends with, but also who it would be beneficial to (socialise with)"* |
| | *R23* | *"I invited them to my restaurant...He came and we had a nice lunch, and one of my other friends joined, who is the former tourism boss. And that is how one builds networks "* |
| | *R22* | *"The longer built relationships they do count. They do weigh"* |
| | *R23* | *"Now it is no problem building networks...Everyone knows me and I know a lot"* |

Bridging social capital performs an important role, especially for outsiders (like FDIs) who are not born into a given bonding community. In the first case study it was documented that the gap between insiders and outsiders relatively easily can be bridged in Northern Laos. This was reinforced by R22 (personal communication, April 14-28, 2013) who explained that in Europe one may sit alone in an establishment, without engaging in conversations, whereas in Laos people sitting alone quickly will be invited (and encouraged) to join locals:

*"The foreigner will look different and if you can speak some Lao you are immediately in the circle."*

However, while it is easy to bridge the gap between insiders and outsiders in Laos – one must work hard to turn the initial social capital into a strong bond. In the first case study it was documented continuous social interactions, repeated business, trustworthy operations, and fulfilment of obligations are ways in which this can be accomplished. Intermediates were also found to be an avenue to bridge the gap between insiders and outsiders – and a focus on accruing face will also progress the transition from outsider to insider. These methods to bridge the gap between insiders and outsiders will be discussed below in light of the findings from the second case study.

**Patience and relationship building.** While the initial gap between insiders and outsiders relatively easily can be bridged, findings from the research documents that it takes a lot of hard work to be fully accepted into the local business networks. R22 (personal communication, April 14-28, 2013) emphasises that:

  *"You play for a long while without asking favours."*

The importance of patience in relationship building, of getting to know someone before getting down to business, was confirmed by R23. During interviews with R23 (personal communication, April 15-26, 2013) a pattern emerged of R23 focusing on the relationship before business. The importance of carefully engineering relations was illustrated by R1 (personal communication, April 14-28, 2013) – who pointed out that the time spent building social capital would correspond with the importance of the relationship. For example, for something trivial, like getting standard supplies, one would get down to business straight away, whereas one would take time to build relations in cases where one could see a strategic benefit of strong enduring relationships. This assessment is supported by the extant literature where Boase (2003) argues:

  *"Be wary of the responsibility entailed when you become a 'trusted old friend.' An obligation has been built up."*

What this means in the social capital discussion, is that social capital comes with reciprocal responsibilities. When assistance is required by a member of a network, the obligation to provide cannot be ignored. That is, actors must carefully consider what networks it would be desirable to form part of (and not seek to develop durable social capital indiscriminately).

During the research, it became clear that for longer and stronger business relationships to be formed there must be mutual advantages (based around the principles of reciprocity). When obligatory doctrines have been met, and when an actor has become part of the main social capital networks, R22 (personal communication, April 14-28, 2013) explained:

*"The longer build relationships they do count. They do weigh."*

That is, while it may take a long time, foreigners can become part of the main social capital networks if they focus on long term mutual advantages. When strong social capital has been accrued, then one can use this network as a strategic asset to reach desired ends. R22 elaborated that people who are after immediate profits are unlikely to become part of the main business networks in Laos. R22 (personal communication, April 14-28, 2013) explained this type of people may:

*"Milk them out…but it will be a short fly."*

In many Western countries there is a straight-forward no-nonsense approach to business with a focus on the deal (Trompenaars & Hampden-Turner, 1998). Over time, and if business continues, relationships and social capital may develop. During the research it became clear that in Northern Laos it is the other way around. Basically, you start with people you can trust, something that takes time to ascertain. When a trusting relationship has been firmly established, then you can move into business. This approach allows untrustworthy actors to be filtered out at an early stage (and is something that is well suited to an environment of limited legal frameworks).

An example of the stronger relationships, and the process used to establish them, was provided by R23 who held an opening ceremony attended by the vice-governor in 2006. R23 (personal communication, April 15-26, 2013) explained about the vice-governor (who later became the governor):

*"He was the sort of person, you know, the sort of person you just connect with; immediate contact. He was such a person, and after the opening we continued having contact; dinner lunch etc. And, here I got to meet the former tourism manager here in*

*the state, and he is also one of my friends now. And, we meet up at lunch and dinner and that is very useful."*

The relationship in this example would initially have been weak, but over time, as more and more social interactions took place, the social capital would strengthen. Mutual benefits would also have helped cement the relationship; employment and business development would have been important for the governor, an increase in luxury tourism for the tourism manager, and in the case of R23 assistance with the many complexities of operating a business in Northern Laos would have been needed. Having powerful connections, combined with being an open-minded individual who takes a genuine interest in the local community, also helped R23 build his social capital networks.

**Modesty and genuine interest**. During the research it became clear that being humble and taking a genuine interest in the community may speed-up the process of bridging the gap between insiders and outsiders. This became apparent in the first round of research and was reaffirmed during the second. During the fieldwork, numerous stories emerged of foreigners who failed in their Lao endeavours (while seeking to implement their Western models). While these did not form part of the research, observations of the main participants (who all belonged to an elite of successful business owners) revealed that they all shared the common traits of being respectful and humble, that they took a genuine interest in the Lao people and culture, and that they cared about the locals.

The importance for social capital of taking a genuine interest in the locals is confirmed by the extant literature. Boase (2003) argues foreigners who arrive in Laos with a Western mindset of how business should be conducted, will generate resentment and hinder cooperation. That to succeed, foreigners must accept that they have as much to learn from the Lao as they have to pass on – and that Lao will be quite accommodating if they get the feeling foreigners care for them and their country. Boase (2003) explains:

*"Never become too attached to your project. This is not the Lao way. The country has been around in various incarnations for over 2000 years and will continue long after you have returned home. Your contribution is a drop in the ocean at most. Be modest. Be quiet, patient, and cool. It just may be the Lao way is superior to yours."*

These findings were confirmed during the interviews conducted in Northern Laos. For example, it became clear that R23 (who has accumulated significant social capital) has few connections in the expatriate community; rather this respondent devotes his time to locals. It was during some of these encounters that he established his first connections (R23, personal communication, April 15-26, 2013):

*"The first one I met when I was a tourist....up in the temple. And I met him there and he spoke good English and later after he left the monastery and started working in a restaurant, I asked him if he was interested in working for me."*

This former monk later became R23's head manager and one of R23 most trusted employees. It also forms a very good example of social capital development. R23 could easily have employed a head manager with more management skills (than a monk from the local monastery); but the combination of being R23's first staff, an important help to R23 in the early years of operations, and because of the long term relationship that developed, he became the head manager of nearly 50 staff. R23's willingness to devote time to learn about the locals was also illustrated in his work with local travel agencies:

*"We work a lot on personal relations and there are often people at travel agencies that want to make contact, and we will always say of course, lets meet, and they will come here. They want to meet the person first."*

**Ceremonies**. Under bonding social capital covered in the previous section the importance of attending ceremonies like weddings and *Bacis* was discussed. While ceremonies are important for the maintenance of established networks – they also provides an avenue to develop relations with new acquaintances (without being seen as too aggressive). When R1 was asked to compare *Bacis* and weddings as a platform for networking, R1 (personal communication, April 14-28, 2013) replied about *Bacis*:

*"Even better actually, because if it is in regards to business, then it is more naturally to invite business connections. If you have taken loans in the bank to open the business, then it would be a good idea to invite the bank as well."*

Inviting banking staff would help cement the relationship between the borrower and the bank, and could prove advantageous if further banking services would be required at a

later stage. R1 (personal communication, April 14-28, 2013) explained that if one was to open a new office or business, then a *Baci* ceremony would be in place, and here there would be nothing more natural than inviting business connections. This includes potential business connections that one would like to connect with. R1 (personal communication, April 14-28, 2013) explained ceremonies provide good opportunities to network and establish connections, especially if one were to sit at the same table as important people. This was confirmed by R23 (personal communication, April 15-26, 2013) who provided an insight into the ease by which the initial gap can be bridged to potential business connections through ceremonies:

*"There was something going on at the university...It turned out it was a Vietnamese delegation that was here. So at that ceremony I got to know the director of the university. We were sitting at the same table, so I got to know the director for the university who were really nice and who talks English, so I invited them to my restaurant."*

In this case R23 was invited to the function and returned the favour by inviting the director to his restaurant. By doing so, R23 sought to establish connections through the principle of reciprocity – and was ultimately hoping to cooperate with the university's school of tourism. R23 (personal communication, April 15-26, 2013) explained:

*"He (the university director) came and we had a nice lunch, and one of my other friends joined, who is the former tourism boss. And that is how one builds networks."*

**Sport and games.** Another potential way to bridge the gap between insiders and outsiders would be through sport and games. During the research it became clear that not many foreigners had discovered sport as pathway to relationship building – but that it could be very effective. R1 (personal communication, April 14-28, 2013) explained that sports like badminton and petanque are popular:

*"Sport of the kind where you do not get too exhausted. Where you can take something nice on that looks good; Yonex. And then they can talk. They like that…Then they stand there and hang out the whole day."*

It has already been established that social interactions are important for networking – and sport simply provides another potential path to get to know the right people (without being seen as too aggressive). R1 made it clear that a foreigner wishing to participate in sport and games would be welcomed with open arms. About using sport as a tool for social capital development, R1 (personal communication, April 14-28, 2013) explained:

*"The people who play badminton they will think about who it makes sense to socialise with, not just who they are friends with, but also who it would be beneficial to. And the golf course, few people go there for fun...and then people use their spare time strategically. It would also make sense for job applicants, because if you want to find a job one has to find people who can provide employment and that can easily be in social settings that one establish connections."*

**Humour.** Another avenue to help bridge the gap between insiders and outsiders was found to be through humour. R22 (personal communication, April 14-28, 2013) explained:

*"If you are a funny guy it is easier for them to attach or get connected for sure. Ah, this guy is coming, he is a funny guy, he is good, easy going, and they have fun, joke around, make songs."*

It has already been established that an important part of Lao social capital relates to social interactions and here humour fits in well. R22 (personal communication, April 14-28, 2013) elaborated:

*"They like things like that...this snap-snap-back humour, there is this story about a foreigner going to the market down here and they say, they point on a fish, and say fish! And they (the Lao) reply, ah, you like fok fok fish? And fok could mean chopped fish, and the buyer then said, ah well, I better take pork then. That is, answering with humour is big entertainment in Laos...it can definitely be part of a business environment."*

This finding corresponds well with the fact that the Lao in the first case study were found to be less concerned about material gains – and more about good and harmonious relations. When establishing initial relations (bridging social capital) humour can be used

as an ice-breaker – and as part of established connections (bonding social capital) humour can be used to cement the relationship. R1 (personal communication, April 14-28, 2013) explained:

*"Yes, definitely. A joke here and there is welcome. It is actually used even more in Thailand and Vietnam, because the Lao are a bit shy."*

The importance of humour for relationship development in Laos has also been documented through the literature. Boase (2003) provides an insight into this aspect of Lao culture through the following story:

*"A foreigner was purchasing barbecued heart at a small roadside stand and asked what animal it was. "Human" was the answer. The surrounding crowd of Lao loved it and the score was 1-0 in favour of the vendor. But the female foreigner, poker-faced responded to the female vendor, "Well I hope it wasn't a male since men's hearts are always much more bitter." This brought on enthusiastic applause from the assembled onlookers and several skewers of barbecued heart for free. The lady vendor said she was more than paid by the pungent reply."*

**Trust.** As in the first case study, a reoccurring theme during the second round of research was a concern of trust. While it is relatively easy to bridge the gap between insiders and outsiders, to establish weak social capital, all respondents stressed the importance of finding the right people with whom to network; people who are capable and who can be trusted. The finding from the first case study, that trust is something that foreigners in particular grapple with, was confirmed by R22 (personal communication, April 14-28, 2013):

*"Foreigners coming here are blinded by the yellow robes of the monks and smiling people, ah, they are all so good, smiling friendly people. And then…we can hear the story end. You are never protected."*

It also formed part of R22 (personal communication, April 14-28, 2013) personal experience. He decided to move to Laos and invest in a partnership with a local business owner. This partnership quickly entered troubled waters, the business did not meet projected expectations, and the partnership did not last long. R22 explained that too many

foreigners engage with untrustworthy people – with people they engaged emotionally with. This could for example happen when foreigners are invited to visit local families (something that happened many times during the researcher's fieldwork). R22 (personal communication, April 14-28, 2013) explained:

*"This is where the poor decision making comes in…and then they get emotionally engaged."*

For foreigners seeking to conduct business in Laos, it would be important to find someone who is both trustworthy and capable. This would ideally be someone who already has well established connections with other trustworthy actors. This assessment was confirmed by R23 (personal communication, April 15-26, 2013) who explained that:

*"I would never have built this (pointing at his hotel) if I had had to have a local partner. That would have been extremely hazardous."*

That a general lack of trust is deep-rooted in Northern Laos was further supported by observations that were made at R1 and R23's hotels. Safes were discovered in the rooms; a security guard was spotted at the entrance to the premises of R1's resort; and signs were hanging in hotel rooms warning guests to leave lights on when using electronics (to prevent burglars noticing screen-lights). When these observations were brought to the attention of R22 (personal communication, April 14-28, 2013) he elaborated that many things get lost; something confirmed by R1 (personal communication, April 14-28, 2013) who explained:

*"You have to count on bigger losses, things disappearing, than what one is accustomed to in Scandinavia."*

R1 elaborated that he was considering installing cameras to film his staff in the restaurant, something that could assist in the prevention of losses. Through later observations, at various locations around Luang Prabang, the author noticed cameras in many restaurants filming staff (something suggesting theft is a common problem). R22 (personal communication, April 14-28, 2013) explained that:

*"We have a lot more robberies."*

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The general lack of trust in Northern Laos was confirmed by R23 who explained that his landlord, for a house he was renting, had been offered a better rent than what he was paying. However, the landlord decided to continue the lease with R23, partly because of the social capital that existed between them, partly because the landlord did not trust the local renters. R23 (personal communication, April 15-26, 2013) explained:

*"If you rent out to Lao they will not pay rent. If you rent to Westerners they do as agreed."*

**Intermediaries**. During the first case study it became clear that intermediaries can help people connect in Northern Laos This was reaffirmed during the second round of research, where R22 (personal communication, April 14-28, 2013) explained:

*"The thing that works in general…is to ask a friend and they ask their friends and now someone recommends someone, and that is a Lao thing."*

During the following conversation, it became clear that the intermediary has an obligation to recommend someone trustworthy and suitable for a given job. Not meeting this obligation would come back to the intermediary and harm their social capital and reputation. R22's (personal communication, April 14-28, 2013) elaborated:

*"Yes, they will only recommend someone good - or they are both entirely bad. So they don't care."*

This statement clearly illustrates the importance of becoming part of a *reputable* social capital network. The use of intermediaries was also observed during the interview with R23. The interview took place at the respondent's hotel, and during the interview R23 introduced the author to his head manager. The reason for this introduction was that R23 wanted to establish working relations between R1 and his head manager (something R23 figured would benefit both hotels). In this case R23 saw an opportunity to use the author as an intermediary to connect his manager with R1. Obviously, R23 participation in the research created an obligation on the author's part, and now R23 saw an opportunity to cash some of those social capital credits in (to help develop a relationship between his head manager and R1). This relationship development was understandably something the author gladly helped facilitate (according to reciprocal principles).

In summary, bridging social capital allows actors to move between the closed bonding groups and bridge the gap to outsiders (Putnam, 2005, 2009); and the fieldwork documents bridging forms a critical component of social capital in Northern Laos. It was documented that weak social capital is relatively easy to establish in Northern Laos (as the local mentality is to be open and welcoming) – but that one must work hard to turn that into a strong bond. However, actors should not seek bridging social capital indiscreetly – rather one must carefully consider what networks it would be desirable to form part of. This is important, because the intangible asset that social capital represents comes with responsibilities; when assistance is required by a member of a network – the obligation to provide cannot be ignored.

### 6.2.3 Linking context

Linking social capital works on the vertical level – and may involve links to formal institutions and government officials (Putnam, 2005; Woolcock, 2001). During the second round of research a total of 11 references were made to linking social capital. This is significantly less than what was made to bonding and bridging social capital. Selected comments can be viewed in Table 6.3.

**Table 6.3 Selected comments – linking social capital**

| Total References | | Selected Comments: |
|---|---|---|
| 11 | R1 | *"...the best investors you (the authorities) circle around and look after."* |
| | R23 | *"Very little bureaucracy; there is no bureaucracy!"* |
| | R23 | *"...he often invites me for dinners and in those settings I meet other people in this group; ministers and higher officials."* |
| | R23 | *"Very helpful authorities..."* |

While the second case study confirm earlier findings, that linking is not as dominant as bonding and bridging social capital in Northern Laos, it was revealed that linking is more important than initially suggested. Upon examining the interpretations from the first case

study, R1 (personal communication, April 14-28, 2013) explained that linking social capital is necessary; in particular when requests are made to authorities that do not involve standard procedures (e.g. an unusual building permission). This perception was confirmed during interviews with R23 (personal communication, April 15-26, 2013), where it became clear that linking social capital can pre-empt the complexities experienced by most respondents with slow bureaucratic procedures:

*"Very helpful authorities…….when you have a problem, or when you want to do something, you just go to the relevant authorities, and explain what needs doing, and they will say 'not a problem, just come back later'. They are very helpful. Very little bureaucracy; there is no bureaucracy!"*

That is, the complexities with slow processes in public institutions experienced by most respondents can, under the right circumstances, be avoided. The difference in experiences between R23 and the other respondents comes down to linking social capital. While the other respondents were found to have little linking social capital − R23 (personal communication, April 15-26, 2013) was found to be much better connected:

*"Another member of my network is the governor. He is one of my best friends…so that helps."*

When queried about the establishment of linking social capital, it became clear that it was not difficult for R23 (personal communication, April 15-26, 2013) to come by:

*"It is no problem building networks. And when I have the friend, the governor, he often invites me for dinners and in those settings I meet other people in this group; ministers and higher officials."*

Many of these additional connections, it later turned out, also became good friends of R23. During the second case study it became clear that R23, who holds significant linking social capital, argues authorities are fast and efficient. This view differs fundamentally from the other respondents, who hold less linking social capital, and who tend to rely on either time or economic capital to accomplish desired results in the bureaucracy. R23 (personal communication, April 15-26, 2013) explained:

*"Now it is no problem building networks…everyone knows me and I know a lot."*

The fieldwork from the first case study revealed that bigger and more powerful businesses would use linking social capital to a greater extent than their smaller counterparts. The experiences of R23, who is the largest foreign investor among the respondents interviewed, confirm this finding.

During observations and interviews it became clear that in addition to a strong focus on social responsibility, which has given R23 a very good standing in the local community, the methods employed to link with officials were similar to those discussed under bridging social capital. They involved the use of intermediaries, continuous interactions, attending and hosting meals and ceremonies, as well as being a trustworthy and patient individual. When these findings were discussed with R1, it was suggested that linking social capital would be easy to establish when a FDI makes significant investments (R1, personal communication, April 14-28, 2013):

*"I think it is rather the officials who seek social capital, because the best investors you circle around and look after."*

That is, while the authorities may not attempt to establish relations with many of the smaller investors, the authorities would be more concerned about satisfying bigger stakeholders like R23. R1 (personal communication, April 14-28, 2013) suggested:

*"Maybe he (the officials) hopes he will invest more, or attract more like him. He would like the province to have a good reputation."*

That is, if this assessment is correct, then the authorities provides good service and builds social capital with important investors – in the hope that these relationships will help advance the economic development of the province. This explanation was later supported during discussions with R23 (personal communication, April 15-26, 2013); where it became clear that the governor initially came to the opening ceremony of R23's hotel (and that their relationship developed from there).

Bourdieu (1986), who is one of the central pillars of the social capital discussion, distinguished between different forms of capital (including economic and social) and

focused on the advantages to individuals who possess each form. Here it was interesting to note that R23 to a much larger extent use (linking) social capital when dealing with authorities than any other respondent included in the research. For example, R22 (personal communication, April 14-28, 2013) explained people often wait months for paperwork lodged with authorities, with no end in sight, unless a favour is provided (in which case everything will be settled in a few days). R22 also made clear that favours are not necessary if people are willing to wait the normal period. R1 (personal communication, April 14-28, 2013) confirmed the assertion that the provision of favours could speed up bureaucratic processes, but stressed that if one were to provide favours, then this must be done delicately:

*"For example if there's a small problem with a passport that needs extension, or a visa, you can ask if they got an express fee."*

In the case of an express fee, the staff in question would keep the extra payment, but it would not sound that way. The practice of using economic capital to accomplish desired results with authorities was confirmed by R24 (personal communication, April 17, 2013) who provided insights into the Lao tax system. Here it became clear that few organisations pay their taxes in full; rather businesses tend to pay too little and lodge confusing tax returns. Sometimes tax returns will be made confusing deliberately; other times simply because the tax payers do not understand what is required. Either way, further evaluations would be needed, and when the tax official arrives to make evaluations and collect the remaining taxes, a compromise can be reached from which both the business and the tax official benefit. Again, this is done diplomatically, and neither the tax payer nor the tax official will mention favours. R24 (personal communication, April 17, 2013) explained:

*"They pretend it is the remaining payment of tax with some strange receipts."*

R24 stressed that if a business did not wish to work the system, if it were to pay all its taxes and if it lodged an understandable tax return, then there would be no need to engage in these practices. R24 pointed out that many Western businesses would do things correctly, whereas most locals would try to work the system.

Of course, it can be difficult to distinguish exactly where linking social capital finishes and where bribery begins. The line is somewhat blurred. A good explanation is provided

by Verhezen (2012) who argues gift-giving in Asian business can either be a bribe, or a tool to strengthen business relationships, depending on the circumstances under which gifts are provided. When it is used to strengthen relationships, it can almost be considered an art form that may involve a combination of favours, gifts and banquets – all of which are guided by cultural boundaries and norms of social legitimacy. In Northern Laos the guidelines for gift-giving, as a tool for relationship building, involves the provision of gifts in public. This, of course, is fundamentally different from the one-off payments of bribes. R22 (personal communication, April 14-28, 2013) explained:

*"(Providing a gift at home) does not build my face because no one else sees what you are doing. That is an important point actually."*

That is, while a one off express fee to accomplish a desired result may be considered a bribe – the provision of small gifts, banquets or favours can under the right circumstances be considered a tool to strengthen business relationships.

In summary, a key difference between the origins of *teun tang sangkhom* and *guanxi* relates to state involvement in business. In the neighbouring communist counterparts of China and Vietnam, the literature documents (Deng & Kennedy, 2010; Hansen, Rand, & Tarp, 2009; Hu, Tam, & Tan, 2010; Wang & Ap, 2013; Ye, 2012) a high degree of state involvement in business (and hence linking social capital); whereas in Laos the government is much more business friendly allowing small businesses to be privately owned in most industries (something that lessens the need for linking social capital). Although actors in Northern Laos may have less need to deal with authorities, than is the case in some other communist countries, the research documents linking social capital can still speed up processes and provide great benefits in Northern Laos.

## 6.2.4 Face & social obligations

Coleman (1988) argues social capital cannot exist without accompanying norms and rules, and in Northern Laos many of these relate to the social obligations that are associated with face. When social obligations are followed, actors will generate goodwill and face will be reinforced. This again bolsters a given actor's ability to access social capital (i.e. bonding, bridging and linking). That is, in order to effectively access the intangible resource social capital represents, individuals must understand the norms, behaviours, and social

obligations that guides the communities in which they wish to operate. During the second round of research a total of 60 references were made to the concept of face and social obligations. Selected comments can be viewed Table 6.4.

**Table 6.4 Selected comments – face and social obligations**

| Total References | | Selected Comments: |
|---|---|---|
| 60 | R22 | *"In Laos everyone wants to own a car and everyone would like to be rich…. really big villas are part of their face."* |
| | R23 | *"They don't want to admit their lack of knowledge to others. There's a lot of prestige involved."* |
| | R22 | *"Here it is about building up goodwill so everyone is on your side"* |
| | R23 | *"You always have to save face; that is always important."* |
| | R23 | *"You never see direct confrontations. You have to zigzag around everything."* |
| | R22 | *"You have to honour the status. I think that is very important."* |

In the following an overview of the Northern Lao concept of face will be provided. This will be pursued by a discussion of some of the more important social obligations that can lead to face in Northern Laos.

Face will for this study be analysed in light of the social capital discussion. When respondents were asked about face – most would initially refer to the risk of losing face (and of the importance of politeness as a mean to preserve face). However, while politeness is important – the focus for this study will be slightly tilted toward ways in which face can be used to secure social capital (something that will be covered in detail after a brief introduction to the concept of face in light of politeness).

During an interview about face and effective Lao communication styles, R23 (personal communication, April 15-26, 2013) was asked about directness:

*"No no, not at all. One has to be careful. Be very careful what one say."*

When asked how Lao would react to straight talk, R23 (personal communication, April 15-26, 2013) responded:

*"You never see direct confrontations. You have to zig-zag around everything. No, that is very important. You always have to save face."*

R23 elaborated that if negative feedback must to be provided, it must be done in private, and that indirectness is an important aspect of saving face in Northern Laos. This corresponds well with findings from the Thai literature, a country that culturally is very similar to Laos, where Ukosakul (2005) argues locals use indirectness in order to accommodate each other without the loss of face. Indirectness in Thailand can take the form of beating around the bush, hints or jokes; all of which enables actors to test the waters before making a request. If an unacceptable request has been made, the same techniques can be applied to avoid direct confrontations. This mirrors the situation in Laos where R1 (personal communication, April 14-28, 2013) provided an insight into staff quitting a job:

*"They would normally wait until they get their pay and then not say anything, just disappear."*

This provides a good example of politeness in Lao society. In the above example a direct confrontation, where dissatisfaction would be difficult to avoid, is prevented (and no-one loses face). Boase (2003) provides a similar example from Laos:

*"When your assistant tells you he must leave the job because his wife is ill, don't offer to help cure his wife. He has just told you he is quitting for any number of reasons but doesn't want you to lose face."*

Intachakra (2012) argues that politeness in Thailand is closely related to indirectness and consideration of people's feelings. Looking at the above examples, it is easy to imagine how a situation of a staff quitting a job could be uncomfortable for all parties involved, how feelings and face could suffer, and how indirectness can help solve this problem. Intachakra (2012) argues that politeness aimed at preserving face may seem unreasonable

when judged by Westerners (who may interpret indirectness as irrationality or insincerity). This was confirmed by observations made of Western respondents in Northern Laos who would often express frustration when discussing issues relating to agreements with locals.

When R22 (personal communication, April 14-28, 2013) was asked if he could explain the concept of face in Northern Laos, his initial response echoed that of earlier respondents:

*"Losing face is not an option. It is a no go."*

The importance of politeness as part of face was again illustrated later in an interview with R22 (personal communication, April 14-28, 2013). It became clear that many things in this respondent's business disappear – and that both face and politeness have to be considered when dealing with the issue:

*"If they steal from you don't want to say anything because you don't want to lose face."*

All in all, the prevention of loss of face is clearly important in Northern Laos. It seems to be the first thing that springs to mind when respondents are asked about face. When drilling a bit deeper, however, it emerged that face relates to more than simple preservation of face. Komin (1990) argues face is identical to ego in the neighbouring country of Thailand – and in Northern Laos it was also found to be important to preserve the ego and public image of a person. R22 (personal communication, April 14-28, 2013) explained:

*"You have to honour the status. I think that is very important."*

This was echoed by (R1, personal communication, December 13, 2013) when the topic of face was discussed:

*"It is obviously important how people view you in Laos, reputation is always important."*

That is, it has been firmly established that face must be preserved through politeness and a concern for other people's feelings. However, face is at the same time linked to both status

and reputation. When examining the Lao concept of face in the light of status, it is useful to look at the responses from the most high-profiled respondent interviewed (R23). The importance of face as an expression for status, recognition, and reputation was reaffirmed by R23 (personal communication, April 15-26, 2013):

*"I know through my connections that I'm very recognised and liked through the authorities and everyone knows whom I am. And, everyone knows I am well respected. And, that helps a lot, it certainly does."*

During the research it was found that when powerful actors attend the ceremonies that are commonplace in Northern Laos – then it is important for less powerful actors to show respect by staying longer than them. This was stressed by R22 and R23 (R22, personal communication, April 14-28, 2013; R23, personal communication, July 20, 2013) who both argued for the importance of providing face through acknowledgment of powerful peers. This parallels findings from the neighbouring country of Thailand, where Ukosakul (2005) argues face is associated with a sense of dignity, self-esteem, prestige, reputation and pride – and where it is important to provide honour and to be status-consciences. The importance of face, as a form of public image, was also confirmed by the extant literature from Laos. Here Boase (2003) explains it is important for Lao people to build and maintain face in the context of a powerful and influential image – something that, when done correctly, enhances the chances that requests will be granted.

All in all, the topic of face in Northern Laos is rather complex. Face has been found to be linked to politeness, indirectness, and a concern for other people's feelings (all of which was found to prevent the loss of face). Face has also been found to be linked to status, reputation, respect, prestige and the public image of a person. While everyone was found to be entitled to a basic level of face, and while everyone's face must be respected (even that of opponents), it is the part of face that is linked to status, reputation and public image of a person that can be used to secure social capital. When this part of face was explored in more detail, and when R22 (personal communication, April 14-28, 2013) was asked what one could do to build face, he responded:

*"I don't think there's one way to do it. It relates to one's behaviour and it depends on what people think of you."*

This response was resonated by R1 (personal communication, April 14-28, 2013) who explained:

*"It is difficult to answer. Some people at home have a lot of respect. It has something to do with everything one does. One can always give a donation to the temple; then one's name will be written on the temple wall…just one of many things."*

So far ego, respect, reputation, prestige, and status have been used to describe the part of face which relates to the public image of a person. Another term that came up during the research was goodwill. During a discussion about R23, and the high level of image and reputation that this actor holds, R1 (personal communication, December 13, 2013) explained:

*"Goodwill! R23 has plenty of goodwill. Goodwill and face are very similar; face means the same as goodwill. You need to equal face and goodwill. That is it."*

Or, more precisely, in the social capital discussion the researcher needs to equal the part of face that relates to the pubic self-image with goodwill. While it is a given that a person seeking to develop social capital must be polite, that they should consider other people's feelings, and that they should avoid actions that can lead to the loss of face – it is the part of face that relates to goodwill that really matters for the social capital discussion. It is in the form of goodwill that face can be used to secure social capital. The respondent interviewed with the highest reputation and social standing, the one with the most face, confirmed this to be the case. He summed up what social capital in Northern Laos is all about (R23, personal communication, April 15-26, 2013):

*"Here it is about building up goodwill so everyone is on your side."*

That is, the investigation into the concept of face in Northern Laos has revealed that face can be saved through politeness, consideration of other people's feelings and indirectness. It has also revealed that face has another side that relates to goodwill and the public image of a person. This latter part of face can be strengthened. Basically, by fulfilling and exceeding one's social obligations – goodwill will be acquired and this enables actors to access the intangible resource social capital represents.

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When asked, it proved difficult for the respondents to pinpoint the exact mechanisms for accruing the part of face that relates to goodwill in the spur of the moment. Nevertheless, a picture slowly emerged through data interpretations and ongoing interviews that would last until the end of December 2013. Key social obligations that can build up goodwill were identified as meeting obligations (in particular reciprocity), being reliable and trustworthy, providing favours, continuous interactions, and to some extent maintaining a façade of wealth and perfection. When done correctly, these augment the reputation and social character of a person.

In summary, it is important for a person to maintain face in Laos, because it translates into goodwill, reputation, and influence in the social capital networks. Face in the context of goodwill and reputation can be built upon, or it can be lessened, depending on the degree to which an actor adheres to certain social obligations. The elements that can either increase or lessen face (and social capital) will now be discussed. It is important to be aware that face (in the form of goodwill) and social capital are closely interterwoven. For that reason, the findings discussed below are not limited to face (but also relates to social capital).

### 6.2.4.1 Trust

In the first case study, interviews and observations in Northern Laos revealed a general lack of trust (outside of the social capital networks). This finding was paralleled during the fieldwork from the second case study; where multiple sources identified trust as a key theme in Lao social capital. This is something that suggests people are likely to develop strong social capital networks (to compensate for the lack of general community ties)[1].

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[1] This lack (of strong community ties) can partly be explained by the fact that Laos has a high level of ethnic diversity with estimates of between 47-132 tribal groups (Djité, 2011; Enfield, 2009; Khouangvichit, 2010). While strong bonding exist within each of these communities (Boase, 2003) - ethnic diversity also has the potential to create divisions within the community as a whole (divisions amplified by civil war and political struggles). These divisions were confirmed by R22 (personal communication, April 14-28, 2013) who explained that Laos was never united the same way as was the ideological counterpart of China.

During interviews with both R22 and R23 the matter of trust of business partners was raised serval times. R22 (personal communication, April 14-28, 2013) initially invested through a partnership arrangement that entered troubled waters:

*"With a Lao partner it can easily happen they will come in after two weeks and ask 'Hey, do we have money?' 'What do you mean do we have money, on the account or what'? There's a lot more things getting lost. There's not this precise working."*

This statement illustrates the importance of finding the right partners to establish social capital with (both competent and trustworthy). In the discussion with R22, it became clear that his former partner, and associated business, did not live up to initial agreements or expectations. R22 (personal communication, April 14-28, 2013) explained:

*"There's so much bla bla and I want to do, and I do this, and once I do this, I'll do that. I mean in Europe it exists as well, but I think here it is stronger. Here are people with saying not the truth and putting a bit more on the facts to build their face of what they are....so you might easily fall into (the trap of believing) this is a really good guy he is doing this and this and that...an advise to take is to really take some time to review these people, to review their family."*

The importance of conducting business with people who has face, or *na*, is illustrated in the above statements. Without trust social capital cannot function, and when engaging with actors who possess abundant face, one is at the same time engaging with actors who has a proven track record of competence and trustworthiness. As indicated in R22's statement above, a general trend emerged of respondents evaluating the track record of people, as well as their families, before business engagement. That is, the old saying that the apple does not fall far from the tree is considered accurate among respondents in Northern Laos (a perception supported by the tight family bonds in Northern Laos).

In summary, in order to build face, or goodwill, one must fulfil one's social obligations and act trustworthily. R1 (personal communication, April 14-28, 2013) emphasised that if an actor breaches the trust that exist within a social capital network, rumours will quickly spread, with devastating effects for that actor's social capital. The result would be loss of face and social capital networks.

### 6.2.4.2. Tangible favour exchanges

During the first case study a key difference between Chinese and the Lao social capital was found in regard to tending favours. Material gains were found to be at the core of Chinese social capital; to the extent where relationships cannot be sustained without accompanying gifts and benefits (Grainger, 2006; Lytras et al., 2005; Wong et al., 2007; Yeung & Tung, 1996). In Northern Laos things were found to be different. While gift giving associated with food or ceremonies seems customary, material exchanges were not found to be common practice (among small to medium businesses). This was reaffirmed through observations made at R22 offices and later of his restaurant, where no significant physical artefacts suggesting material exchanges were identified. In a restaurant belonging to R22, a wooden zebra figurine that R1 gave R22 upon the birth of his son was identified. This figuring was standing on a shelf with a number of similar inexpensive objects that R22 had received as gifts (and for that reason were on display). Similarly, when observations were made at R1 and R23 premises, no artefacts suggesting noteworthy gift giving is common were identified.

However, in spite of these observations, it was discovered that gift giving is more important than was initially suggested. During the first case study the practice of providing envelopes with money as gifts for weddings was identified. During the second round of research this ritual was further investigated – and here it became clear that guests use the envelope in which they received an invitation (with their names on it) to give money. When asked if the amount of money given would translate into, or be interpreted as, respect for the bride and groom R1 (personal communication, April 14-28, 2013) replied:

 *"Yes, absolutely, the more you give, that is clear."*

That is, the more important a family is in the community or for one's business objectives, the more one will provide in the envelope. The amount given will translate into goodwill. When R22 was asked about similarities between China (where he has worked) and Laos in regard to gift exchanges, it became clear that R22 found material gift exchanges to be more important in China than in Laos. In spite of this R22 explained gifts, in particular in connection with events, can be used to build face in Northern Laos (R22, personal communication, April 14-28, 2013). Elaborating on this point, it became clear that a key factor that needs to be considered when using gift exchanges to build face – would be to

make it happen for others to see. R22 (personal communication, April 14-28, 2013) explained:

*"It needs to be in the face of other people. Building face is always what other people see. If I invite someone home and have a nice bottle of whisky that's nice, but that doesn't build my face because no one else sees what you are doing. That is an important point actually."*

During the following discussion it was emphasised that the provision of gifts to build relations has to be done tactfully. This was confirmed by R1 (personal communication, July 23, 2013) who emphasised the importance of not making people appear greedy:

*"You have to do it discretely so it does not look like you think the receiver is corrupt or greedy. So in conjunction with a dinner or similar is very good; then favour and dinner melts together into one."*

Based on these findings, it seems Laos is leaning a bit more toward China (where the literature review documents favours exchanges are paramount) than previously thought. This finding will cause a slight modification to the conceptual framework.


### 6.2.4.3 Intangible favour exchanges:

The practice of intangible favour exchanges (as a mean to build face and social capital) appears considerably more common than material gift exchanges in Northern Laos. An example of how favour exchanges take place, and how they help built face, was provided by R22 (personal communication, April 14-28, 2013). Here it became clear that lunches and dinners form an important part of Lao business, and if one is invited out, it is important that the favour is returned at a later stage. This is confirmed by the literature, where Boase (2003) stresses the importance of returning dinner invitations (as being perceived as cheap is a great insult which can cause permanent damage to a business relationship).

Of the respondents interviewed, the practice of hosting and attending lunches and dinners came across as more important for R23, who is engaged in more linking social capital and

more élite networks. R23 (personal communication, April 15-26, 2013) explained how dinners, business and favour exchanges come together in Northern Laos:

*"When I meet the governor we have dinner or lunch. And then it is clear that we talk business. I am meeting the governor soon, and I have a lot of things I need to discuss. So I think we will catch up in his office and talk there. While there I will invite him out for dinner in the evening."*

While (R23, personal communication, April 15-26, 2013) over the years has developed a close working relationship with the governor, and while they now can meet up to discuss business, he stressed the importance of being diplomatic and not initiate business talk too early in new relationships.

Another example of favour exchanges was provided by R23 (personal communication, April 15-26, 2013). Here a builder, with whom R23 have good relations, helps R23 with building and maintenance solutions whenever a need arises. To repay the assistance provided, R23 in turn helps the builder get orders. R23 confirmed that adhering to these obligations leads to recognition, goodwill, and face. This is also illustrated through the literature where Boase (2003) argues:

*"Face is given when indebtedness is honoured. It is important for a Lao person to build and maintain face in order to shape a powerful and influential image. The more important one appears to be, the more likely one's requests will be granted."*

An interesting observation was made in Luang Prabang; where R1 and the author were driving to a bank. Approaching the bank, a party was observed taking place at the front, and R1 changed his mind and drove right past. While passing the celebration, R1 (personal communication, April 14-28, 2013) explained that if he was seen by the bank staff, he would be obliged to join the party (and he would be intoxicated in short order). R1 elaborated that if he needed to borrow money from the bank, then this party would be a great opportunity to network with decision makers. That if he wanted to build face, goodwill, and social capital with the banking staff, he would not just participate, but also sponsor the party (by donating beers for the function). Such a donation would augment R1's reputation, it would create goodwill, and it would create an obligation on part of the banking staff to later return a favour. The benefits of making donations for company

functions was confirmed by R23 (personal communication, April 15-26, 2013) who engages in many contributions.


### 6.2.4.4 Continuous interactions

It was previously established that continuous social interactions surfaced as a critical factor for Lao social capital. While the importance of continuous social interactions was discussed in detail in the bonding section, it also proved relevant to the discussion about face and social obligations, as it can help secure goodwill. R22 (personal communication, April 14-28, 2013) explained:


*"There's an importance to that. Like when my wife says she is ashamed that I don't go with her to the weddings because I don't like weddings, I don't like the Lao way of doing weddings until I realised that they have to see my face. They have to see my face and we have to look good. We have to be part of the community and they have to remember us. And we are doing business with these people and that is why we have to go through it whether we like it or not."*


That is, goodwill and face can be augmented through social interactions. R22 (personal communication, April 14-28, 2013) elaborated that:


*"It all comes together to the social. What I realised is you cannot live isolated in Laos. If you want to do business with Lao people you need to be a sociable person. You need to take part in social life which is weddings and drinking. I tried to stay out during earlier years, but you get invited to so many places you don't even remember it by the end of the day."*


R1 (personal communication, April 14-28, 2013) confirmed the importance of social interactions, and elaborated that many Westerners grapple with the socialising and drinking aspects of Lao culture. This was confirmed by Schopohl (2011) who argue alcohol serves to lubricate and strengthen social bonds and by Boase (2003) who explains:


*"You may have to drink enormous amounts of alcohol when in the provinces particularly when visiting villages….There are a number of ways of dealing with this situation assuming you are not alcoholic in which case you are in heaven."*

While invitations from strangers (where one does not seek to develop social capital) can be declined – invitations from business connections should be accepted. Of the respondents included in the second case study, only R23 would make an effort to attend *all* the events he receives invitations for, whereas R22 and R1 would be more selective. R23 was also found to have a significantly more goodwill in the community than any other respondent involved in the research.

These findings are supported by the literature from the neighbouring country of Thailand, where Purchase & Phungphol (2008) found a majority of business relationships originates from social networks. This is significant for the research into Laos, because many cultural and business similarities exist between the two countries (Fry, 2014; Holt, 2009; Lintner, 2008). For example, Lintner (2008) explains that the diaspora Lao in Thailand outnumbers those in Laos – and that the Lao language spoken by this community is merely considered a Thai dialect. Purchase & Phungphol (2008, p. 529) explains about social capital development in Thailand:

*"A Western manager needs to be prepared to allow a personal relationship to develop alongside any market relationship."*

For all respondents in the second round of research the story was the same; they participate in celebrations because it forms part of their social obligations, because it builds goodwill, and because it means they form part of the community. R1 (personal communication, July 30, 2013) explained

*We just had the mayor and a few other (officials) over. We introduced a new sign, and then we had a reception. It is a good example. We take care of wine and better food than is normally served at such events, and then they are extra happy. The only annoying thing is the absurd drinking during daytime. I'll never learn to enjoy that. "*

In this instance, R1 would build additional face because he received important visitors for his ceremony – a favour that was returned through the provision of better good foods and wines for the officials. The importance of having important associations was confirmed by R22 (personal communication, April 14-28, 2013) who clarified that ceremonies are important for face building because it serves as an opportunity to showcase one's powerful

connections. This also became evident in discussions with R23, where his networking with the governor, has open many doors to additional social capital networks.

R22 (personal communication, April 14-28, 2013) explained that a few parameters guide the attendance of actors during celebrations; that powerful actors can be expected to arrive late and leave early (because they are important and busy). This was later confirmed by R23 (personal communication, July 20, 2013) who often attend ceremonies with top officials:

*"But when I go to ceremonies where also the governor is present, I don't leave before he has left. But he doesn't like to stay long either, and when he is there we say hello and make cheers."*

Although R23 was found to be an important connection himself, and although R23 prefers to keep ceremonies short and sharp, he explained that when top officials attends he would stay longer to show the proper respect. This would, of course, also build goodwill in the eyes of these connections.

### 6.2.4.5 Donations

In the first case study it was documented that doing good in the community could build the goodwill that will lead an improved standing in the community. This was resonated in the second round of research, where R1 (personal communication, April 14-28, 2013) explained:

*"One can always give a donation to the temple – then one's name will be written on the temple wall."*

Basically, by donating to a temple one can boost an image of being respectable and decent. R23 elaborated that when he built his hotel, there were no street lighting in the area. At night it was completely dark; something that was not acceptable for his high-end clients. R23 (personal communication, April 15-26, 2013) explained:

*"I got some connections up at the electricity works to investigate if we could have street lights here. Uh, they responded, we have wanted that for a long time, but we*

*don't have any money, they came back to me and explained. Then I responded, if I pay,*
*can we have it then?"*

This generous offer on R23's part was accepted (with delight) by the officials at the electric works, who offered to cover the costs of installation. That is, R23 provided a favour for the city, and in turn a favour was returned by the electricity works. R23 (personal communication, April 15-26, 2013) explained:

*"During the evening I bicycled down to have a look, and then almost the entire town*
*stood there all the way up to the temple, and when I came they knew I had paid, and*
*everyone gave me applause – and in the end I also installed a transformer, and then all*
*the villages could get connected to the transformer."*

Ever since these favour exchanges, R23 have had good relations with the officials at the electricity works, and when they have a party, R23 readily sponsor a million or two Kip (AUD 160-320) for beverages.

R23's ability to build face and social capital is likely to explain why R23 experience with public institutions is one of helpful authorities and efficient systems (whereas other respondents have described complex and slow processes). Basically, R23 have through his actions built up goodwill, or informal social capital credits slips, that can be cashed in when a need arises. Since R23 generally provides more than he receives, the balance is in his favour when assistance is needed. When R23 was asked if powerful actors in Laos are expected to contribute socially and look after those less fortunate, R23 (personal communication, April 15-26, 2013) responded:

*"Yes, you can say that! They got that! Because they have a lot of, I have been asked*
*when I have been in departments, do you employ disadvantaged people? And we have,*
*when there's someone who suit, then we do that. We think a lot about that."*

That power comes with responsibility was confirmed by R22 (personal communication, April 14-28, 2013), who explained that when he goes out with locals on lesser incomes, for example staff, then he would pay the lion's share of the bill. Other participants, on higher incomes, while contributing less, would contribute more than the people on low incomes. That is, a system seems to be in place, where wealthy people are expected to

contribute more. Of course, when doing so, this adds credibility to their face and reputation. When R1 (personal communication, April 14-28, 2013) was asked about this observation he responded:

  *"Yes, that is correct."*

When R23 was told about the book donation system that R1 had arranged (discussed in the first case study), where tourists would contributed funds for school books, R23 (personal communication, April 15-26, 2013) confirmed such arrangements would be looked very well upon by locals (including officials).

During an interview with R22 (personal communication, April 14-28, 2013) about being socially responsible, it became clear that the Buddhist belief in karma is deeply embedded in Lao culture; something confirmed by the extant literature (Boase, 2003; Stuart-Fox, 2010). Karma is fundamentally a belief in cause and effect, where the deeds one carries out will rebound. The idea being that an actor who sows goodness will reap goodness; while an actor who propagates evil will have evil returned. While many foreigners may not believe in karma – adhering to the karmatic principles can still benefit their social capital as it will lead to a good standing, a good reputation, and most importantly face. R22 (personal communication, April 14-28, 2013) explained:

  *"Do marriage, or do good things, and good things will come back to you. I think deeply they still have this thing."*

That is, the idea of karma is closely aligned with social capital since one can build up goodwill, or informal credits, through generous acts. Later, when a need arises, one can then cash in some of these informal credit slips to reach desired goals. R22 (personal communication, April 14-28, 2013) elaborated on the topic of karma:

  *"If you live here, and if you work here, then you may hear that you should not take revenge, the person has done bad to us, but he has actually done more bad to himself."*

All in all, engaging socially and being socially responsible are ways in which FDIs can project themselves as being a good pillar of society – something that again will contribute to their face in the form of goodwill (and something that can augment their social capital).

During the second round of research the importance of being seen as a good pillar of the community, or social capital networks, was found to be somewhat more important than what the first round of research suggested. This was confirmed by all the key respondents (who all have a history of helping people in need) and will cause a slight modification to the conceptual framework.

### 6.2.4.6 Material wealth

Another factor that helps build face, which was not uncovered before this point in the research, relates to materialism. During the three fieldwork explorations conducted in Laos up to this point (between 2006 and 2013) – a significant increase in materialism was witnessed. Luxury cars now roam the streets, fancy phones, and other items that display wealth and success were observed. When R22 (personal communication, April 14-28, 2013) was asked about this observation he explained:

*"People want cars because it looks good. It has nothing to do with the utility of the car, it is strongly and only because it looks good. It has to look good and it has to make an impression."*

The fact that people purchase cars to enhance their appearance (and to gain face), as opposed for the usability of the vehicle, was confirmed by R1 (personal communication, April 14-28, 2013). He pointed out the difficulties of servicing even the most basic brands in Laos. Yet, people purchase fancy luxury cars that can only be serviced in places like Thailand. R22 (personal communication, April 14-28, 2013) elaborated on the topic of material wealth:

*"In Laos everyone wants to own a car and everyone would like to be rich…. really big villas are part of their face."*

*The importance of materialism was later confirmed by R23, who was asked how people get status in Laos. R23 (personal communication, April 15-26, 2013) explained:*

*"Car! A fine car."*

During the following discussion, the author referred to a television documentary from China. Here, in a dating show, a man was rejected by a girl who explained she would rather cry in the back of a BMW, than laugh on the back of his bicycle. R23 (personal communication, April 15-26, 2013) responded:

*"Yes, and that is alive and well here. Many say here they will have a rich foreigner to marry. That is a goal for many."*

While R23 in this statement talked about marriage, it became clear that many locals in a similar fashion seek business partnership with affluent foreigners. This confirms the earlier discovery that many foreigners enter business partnerships with the wrong people; people who are after quick cash and who do not have the needed face or social capital connections to get things done.

A number of social obligations that can lead to face in the form of reputation and goodwill in Northern Laos have now been identified. They include politeness, being reliable and trustworthy, exchange of favours (and reciprocity when these are received), attending and hosting ceremonies (ideally with powerful actors), engagement in other social interactions, and to a smaller extent materialism (to build a public image of perfection). Face and ways in which it can be accumulated, has been an important part of the discussion, as face forms an central component of Lao social capital. This is confirmed by Verhezen (2008) who argues social capital is a form of symbolic capital that, in much of Asia, takes the form of face.

## 6.2.5 Reasons and origins

The primary aim of this research was to identify the form and use of social capital among FDIs operating small to medium sized businesses in Northern Laos. A secondary aim of the study was to examine the origins of Lao social capital. In the first round of research, it was discovered that change and uncertainty, limited legal infrastructure, collectivism and power distance have helped sculpt the distinctive Lao version of social capital. These external factors were further investigated in the second round of research – and the findings of this research will now be presented.

### 6.2.5.1 Uncertainty and change

One of the factors that in the first round of research was found to have contributed to the distinct version of social capital that exist in Laos was uncertainty and change. It was documented that significant transformations have taken place in Laos, and that the Lao people have been forced to adopt, migrate and change their livelihoods due to conflict, instability and radical political and economic changes (Fry, 2007; Lintner, 2008; Rigg, 2005). These changes have produced a great deal of uncertainty in Lao society, and this is something that (in the first round of research) was found to have been counterbalanced by strong reliable social capital networks.

For that reason, this aspect of the origins of Lao social capital was further investigated during the second round of research. While R23 could not confirm, nor disconfirm, whether uncertainty and change had led to a need for social capital in Laos – R22 argued that the uncertainty caused by change has led to a reliance on trusted networks in Laos. R22 also pointed out that the changes has taken place in Lao society caused a lot of mistrust. R22 (personal communication, April 14-28, 2013) explained:

> *"You can also see there's a lot of distrust in society because of the war, it is still too close. In China there was the Cultural Revolution that basically put everyone in the same direction, but here it failed."*

Much like rapid change creates uncertainty that encourages people to rely on trusted networks – so it is plausible that general mistrust in society would encourage people to rely on trusted networks (which can often be found within bonding communities).

A further examination of the extant literature confirms these interpretations. Here it is documented that people exposed to uncertainty and change counterbalanced this by strong reliable social networks (Cook, 2005; Michailova & Worm, 2003; Narayan & Pritchett, 1999; Verhezen, 2008). That is, the findings from the fieldwork, as well as the extant literature, verifies the hypothesis that the Lao people has relied on social capital (as a solid rock in a stormy sea) during years of uncertainty and change.

### 6.2.5.2 Limited legal infrastructure

It has been argued that that the distinctive version of social capital that exist in Laos, evolved the way it did to enable locals to deal with a set of conditions that characterise Lao society. One of the most important of these conditions relates to limited Lao legal infrastructure (Gunawardana & Sisombat, 2008; Leung et al., 2010; UNDP, 2006). Weak legal frameworks have in Laos made it difficult to settle disputes through the legal system and this has been counterbalanced by social capital.

For that reason, one of the features that were investigated during the second round of research was the extent to which FDIs made use of the legal system. Here it quickly became apparent that the findings from the first round of research were correct; that actors are expected to mediate their own problems. These findings were reaffirmed by all respondents during the second round of research (R1, personal communication, April 14-28, 2013; R22, personal communication, April 14-28, 2013; R23, personal communication, April 15-26, 2013). R22 (personal communication, April 14-28, 2013) explained about legislation in Laos:

*"The rules are grey zoned."*

This was also supported by the extant literature, where Boase (2003) argues that Lao view contracts as a starting point, which relates more to the relationship than to the specific terms and conditions outlined in the contract. That Lao think Westerners pay too much attention to negotiating details (which for them become meaningless if circumstances change). This assessment was confirmed by R1 (personal communication, April 14-28, 2013) who explained:

*"Contracts are not important; you cannot go to a court, but they help you remember what you agreed."*

During interviews with R22, it was made clear that the legal understanding among Lao is different to that of Europeans. R22 explained that in Europe, students are taught about their legal rights and duties, whereas in Laos people have a socialised understanding of justice. To illustrate the point R22 (personal communication, April 14-28, 2013) asked the author:

*"Have you seen a lawyer's office in Luang Prabang?"*

The author had not – and R22 went on to explain that none exist in the largest city of Northern Laos. He elaborated that mediation, as opposed to the legal system, is used if problems arise. This was supported by R23 (personal communication, April 15-26, 2013), who explained that going to the authorities with a legal problem should be an absolutely last resort. R23 elaborated that he once had to draw in his linking social capital to settle a dispute with another resort that opened up with the same name as his hotel. To settle this dispute, several meetings first took place, during which R23 in a non-confrontational manner explained that his name was registered with the authorities, and the use of his name was an infringement on the goodwill he had built up. Ultimately, diplomacy failed, and R23 had to draw on his linking social capital to resolve the matter. R23 emphasised this was an exception from the rule; that people are supposed to mediate their own problems.

Obviously, preventing problems from arising in the first place, or mediating conflicts if they do, will be a lot easier if social capital is in place. R23 (personal communication, April 15-26, 2013) provided an example of a typical Lao dispute resolution:

*"We had it once when we had this (person) who had demands on me and I had demands on him, and then what we did was that he came, and he brought a friend, and then we just sat there and talked and chatted and then the dispute ran out in the sand."*

In summary, the fieldwork conducted for the second round of research endorses the findings from the first; that the Lao legal system is relatively weak and that personal connections, or social capital, based on mutual trust is widely used to compensate for legal deficiencies. This interpretation is supported Grainger (personal communication, June, 2013) who argues relationships can replace the rule of law in countries where it offers little protection. It is also supported by the extant literature where Michailova & Worm (2003) argue that tight personal relationships are inevitably reinforced in contexts where people are not protected by law.

### 6.2.5.3 Collectivism

One of the factors that in the first round of research was found to have contributed to the distinct version of social capital that exist in Laos was collectivism. Basically, people living in collectivist societies are deeply embedded in strong interdependent relationships, and this is something that supports high levels of social capital (Dunning & Kim, 2007; Yeung & Tung, 1996).

That Laos is a collectivist society was confirmed by R23 (personal communication, April 15-26, 2013) who provided an example of the importance of collectivism:

*"When a room is being cleaned in Germany you would have one or two doing it, but here you have five so that they can talk and enjoy themselves."*

R22 (personal communication, April 14-28, 2013) elaborated that everything comes together to the social and that people cannot live isolated in Laos. That is, the finding from the first case study, that Laos is a collectivist country where people are embedded in strong interdependent relationships, still stands. The collective nature of the Lao people is something that has reinforced the need for norms, trust, and social relations (which also forms part of social capital).

### 6.2.5.4 High power distance

In the early stages of this research Chinese social capital was used as a benchmark to explore the concept in Laos – and in this neighbouring country high power distance was found to have contributed to the importance of linking social capital (Banfe, 2011; Dunning & Kim, 2007; Hitt et al., 2002). For that reason, one of the factors that were researched, and found to have contributed to the distinct version of social capital that exist in Laos, was high power distance.

In was established that powerful actors in Northern Laos gain face when they help weaker members in their communities. The higher the power distance in Lao society, the more people would be in a position to help weaker members of their networks (and thereby gain face). R1 (personal communication, April 14-28, 2013) explained that inequalities are accepted among Lao:

*"I don't think people on low incomes mind more powerful people, not unless they bothered them."*

That power distance is a factor in Lao society was also reaffirmed by the extant literature, where Boase (2003) argues control in Lao organisations are from the top down, by Holt (2009) who argues karma (and the accumulation of merit) in Theravada Buddhism leads to hierarchy in society, and by R23 (personal communication, April 15-26, 2013) who explained:

*"Hierarchy exist here, absolutely."*

High power distance is also confirmed by Schopohl (2011) who explains Lao political education begins in primary school where children are taught values of respect for elders and state officials – and by Rehbein (2007) who discusses superiors who accrue bonds of loyalty to enhance their position. R22 (personal communication, April 14-28, 2013) elaborated that a person's position in the Lao hierarchy would depend on age, status, work, and social recognition. R22 also explained that although power distance is high compared to Europe, it is lower than that which can be found in Confucian societies like China and Vietnam. This assessment was mirrored in the responses of R23 and R1, who both delegate a lot of decision making to their staff (R1, personal communication, April 14-28, 2013; R23, personal communication, April 15-26, 2013).

### 6.2.6 Local definition and concept

The main objective of this research is to identify the form and use of social capital among FDIs in their interactions with locals in Northern Laos. During the second round of research a total of 49 references were made to the concept and name for social capital in Laos. Selected comments can be viewed in Table 6.5.

**Table 6.5 Selected comments - definition and concept**

| Total References | | Selected Comments: |
|---|---|---|
| **49** | R22 | *"They use soy-gan, help each other…"* |
| | R1 | *"If there is family involved, there's Pi-nong…people use that and say ah we are Pi-nong we are family and we help each other."* |
| | R23 | *"What you do here is that you must create a network. Find people one can work with."* |
| | R1 | *"The more the shopkeeper has developed a relationship, the more difficult it is to change; it is a way of cementing the business relationship."* |
| | R23 | *"It takes a long time to build up (social capital), but then when you have it, then it helps a lot."* |
| | R23 | *"It is something one must build up (social capital). It takes time to do that. But I can say that when it works, then it works like clock-work."* |

While many Asian languages have conventional words for social capital, the first round of research did not find a common word for Lao social capital. The search continued throughout the second case study. During this work some new leads were identified – and in the following the investigation and interpretation of these will be presented.

### 6.2.6.1 Name

When the idea of social capital was explained to R23, he responded that there was no word for the concept in Laos. R23 (personal communication, April 15-26, 2013) elaborated:

*"What you do here is that you must create a network. Find people one can work with."*

Even so, a few new leads were uncovered. When R22 was asked if he knew a local word for the concept, for a relationship with exchange of favours, R22 (personal communication, April 14-28, 2013) responded:

*"If there is family involved, there's "pi-nong". pi-nong means family member related to, it doesn't have to be the same blood line, it could be inherit or a marriage, and Lao people use that and say ah we are pi-nong we are family and we help each other."*

In the following discussion it became clear that *pi-nong* is not something outsiders can become part of (except through marriage). After an evaluation of similarities between social capital and *pi-nong*, R22 elaborated that it would not be a suitable word for Lao social capital. This was later confirmed by R1 (personal communication, September 2, 2013) who explained:

*"Pi-nong has to be family, so that cannot be used (for social capital)."*

While *pi-nong* potentially could be used to describe bonding social capital, which is often centred on kinship, it would exclude bridging and linking social capital (and was for that reason dismissed as a word to be investigated further). During further discussions about a conventional Lao word for social capital, a comparison was made to *guanxi* in China. R22 (personal communication, April 14-28, 2013) explained:

*"I know what you mean. The Chinese language has a word for that. No. They use soy-gan, help each other, but you could have that for many, many, things. If you were to go to the police, or have a meeting with someone you can always refer to "helping each other', being friends, but it is not one phrase or one word."*

*Although R22 disregarded* soy-gan *as a suitable translation for the concept of social capital the lead was researched further. During this investigation, it became clear that the word soy-gan would be useful to describe the concept of social capital – but that it was not the Lao word for social capital. R1 (personal communication, September 9, 2013):*

*"One can say soy-gan without networking. For example, if you get stuck in mud and someone help push you out. You will thank them, and then they may answer 'no*

*problem, soy-gan', even if it is obvious you will never meet again. A Chinese would not say guanxi without exchanging telephone numbers, for the simple reason there is no networking taking place."*

During discussions between R1, the author, and R22 – an ultimately conclusion was reached that soy-gan could not be used as the local word for social capital. R1 (personal communication, September 20, 2013) summed up this conclusion in the following statement:

*"I agree soy-gan can be used to describe. But describing is not what you are looking for. You are looking for a word for the concept."*

That is, while soy-gan can be used to describe social capital – it does not mean social capital. This interpretation was later confirmed by Maniemai Thongyou (a senior researcher at the Khon Kaen University in Thailand). When Thongyou (personal communication, September 14, 2013) was asked about the use of soy-gan as a word for social capital in Laos, she responded:

*"I think "soy-gan" means help each other."*

Thongyou furthermore confirmed the conclusion reached during the first case study, that *teun tang sangkhom* would be the best translation for social capital into Lao. However, she elaborated that people in the region, outside the academic community, would not understand the concept of *teun tang sangkhom* – and for that reason soy-gan could be used for explanatory purposes among locals. When asked if Thongyou could think of another everyday word for social capital in the Thai or Lao language, Thongyou (personal communication, September 14, 2013) responded:

*"I don't think we have the Thai (or Lao) word for this. I have attached here one Thai article, with English abstract for you. They do not translate the word guanxi to Thai."*

In addition to the article supplied by Thongyou, a broadened examination of the literature cemented the assessment that the Thai language does not have common local word for social capital. Here an examination of articles written about Thai (a language that shares many similarities with Lao) social capital were found not to have a common local word

for the concept. This includes Havanon et al (2005), Yiengprugsawan, Khamman, Seubsman, Lim, & Sleigh (2011) and Gine (2011).

That is, the conclusion reached during the first case study, where *teun tang sangkhom* was identified as the most suitable translation for Lao social capital, has now been firmly established.

### 6.2.6.2 Less philosophers

In the first case study the reasons behind the lack of a common word for Lao social capital, when other Asian languages like Mandarin were found to have words, was investigated. R1 (personal communication, April 8-19, 2012) suggested that Confucian cultures traditionally are the ones with advanced languages; cultures with philosophers who have spent time thinking and writing about social matters. This assessment was further explored, and supported, in the second round of research. R22 (personal communication, April 14-28, 2013) explained:

*"There are no worries and no books (in Laos). If you go to India or Pakistan or even Sir Lanka where people sit in a coffee shop and read newspapers. Here's a question, how many newspaper readers have you seen here? Plus, how many people have you seen reading a book?"*

After a brief reflection, the author acknowledged none had been observed. During the remainder of the fieldtrip observations were conducted; all with the conclusion that the only newspapers witnessed were in English (mostly older editions of The Bangkok Times) at a few restaurants serving foreigners. No observations were made of locals reading newspapers, magazines, or books. R22 (personal communication, April 14-28, 2013) elaborated that business practices in Northern Laos are less sophisticated than they are in places like China – and explained that Laos has a *ho-bing-yang* culture of:

*"It doesn't matter, no worries, it's not too bad, you know, all this stuff. It is this culture that, it is a farmer's society…If you were able to shut down cars and internet here, people would be able to live just as happily."*

R22 (personal communication, April 14-28, 2013) went on to compare Lao business culture with that of the Chinese. He explained that the Chinese are much more aggressive in their business dealings and social capital development:

*"Yes, aggressive, not in a bad way, not hitting or being violent, but aggressive in that I want to reach my goal. These are the steps I am going to do."*

Many of these calculated steps relates to social capital – suggesting that the Chinese *guanxi* has been defined and organised to facilitate transactions. During the first case study, a suggestion was made that a key difference between social capital in China and Laos comes from the lack of a regular definition. In China, because the concept of *guanxi* has been institutionalised, people actively and consciously build *guanxi* relations to accomplish desired results. This differs from the situation in Laos, where the concept has been less clearly identified (in the conventional language) and where people build relations unconsciously. It is similar to the difference between a rule and a norm; where in China people adhere to clearly defined rules, whereas in Laos people adhere to less clearly defined norms. That is, while social capital is extensively used in both societies, people in Laos were found to be less conscious of what they are doing. This is no different from many other parts of the world, where social capital only has been gained traction as a valuable resource in the literature over the last two decades (Bjørnskov & Sønderskov, 2013; Liu et al., 2014; Lu, Yang, & Yu, 2013).

### 6.2.6.3 Social capital in Northern Laos

During the research it became obvious that the importance of social capital for business in Northern Laos should not be underestimated. This was emphasised by all respondents involved in the second round of research. R23 (personal communication, April 15-26, 2013) explained:

*"It is something one must build up. It takes time to do that. But I can say that when it works, then it works like clock-work."*

R23 then elaborated on his relationship with the governor; initially the focus was on relationship building, but now that the relationship is firmly secured, they can talk

business when meeting up for lunch or dinner. R23 (personal communication, April 15-26, 2013) elaborated on the benefits of social capital for Lao business:

*"It takes a long time to build up, but then when you have it, then it helps a lot. And I know through my connections that I'm very recognised and liked through the authorities and everyone knows whom I am. And everyone knows I am well respected and that helps a lot, it certainly does."*

The benefits of social capital, and the assessment that social capital takes time to build, was confirmed by R22 (personal communication, April 14-28, 2013) who elaborated on the process of building up a social capital network:

*"You play for a long while without asking favours…the longer build relationships they do count. They do weight."*

The importance of Lao social capital was also confirmed by the extant literature, where Boase (2003) argues that relationships in Laos are drawn upon to get things done in all aspects of life (and where obligatory and reciprocal principles ensures these networks can be relied upon). R23 (personal communication, April 15-26, 2013) summed up what social capital in Northern Laos is all about in the following statement:

*"Here it is about building up goodwill so everyone is on your side."*

The importance of building up goodwill, or social capital credits, which (unofficially) can be cashed in when a need arises, was confirmed by all respondents of the second case study.

During an examination of the conceptual framework, developed during the first round of research, R1suggested that the trust and strong personal relationships mentioned in this framework in some instances would be of less importance. The reason for this being, that many (smaller) business dealings takes place with actors on the fringes of the social capital networks. R1 (personal communication, April 14-28, 2013) explained:

*"There could be someone over in town that would do tricks, but if one has to get into the school, and one thinks that he knows someone there, then you can still use him. But you know he is dodgy, so there are many other things you would never do with him."*

That is, although strong relationships and trust form part of the relationship that exits among the key connections within the social capital networks – relationships may also be of a looser nature when one engages in business with people on the fringe of the networks.

The importance of social capital networks was illustrated when the author posted materials to Laos. Here it became clear that addresses are not used. Rather, when posting a parcel, one use words to describe where the receiver can be found (in a given town). Considering Laos used to be a French colony, it is reasonable to expect the idea of addresses would have been introduced (alongside the French architecture and city planning that can be found in many places). However, it is clear that it never caught on. What this suggests in regard to the social capital discussion, is that people in Northern Laos largely rely on tight-knit and well-known networks (where addresses are not that important); something that clearly differs from the Western tradition of dealing with a much broader spectrum of people (where postal addresses are of essence).

It has been documented that weak social capital is relatively easy to establish in Northern Laos (as the local mentality is to be open and welcoming). When comparing this to the extant literature on China (that formed the initial benchmark for this research) – it became clear that a key difference between the two countries relates to the aggressiveness by which social capital is used to accrue material gains. While material gains and strong personal relationships are important in both China and Northern Laos – the scale seems to be tilted toward materials gains in China (Lee & Dawes, 2005; Wong et al., 2007) whereas the scale seems to be tilted toward good relations as an end in itself in Northern Laos. This assessment was confirmed by Thongyou (personal communication, September 14, 2013), the Director for the Center for Research on Plurality in the Mekong Region at the Khon Kaen University in Thailand, who in a discussion about similarities between Lao and Chinese social capital explains:

*"I think guanxi expects more immediate returns."*

An explanation of this difference between social capital in the two neighbouring countries was provided by *guanxi* expert Grainger (personal communication, November 6, 2013), who clarified that material gains have only become prominent with the growth of the Chinese economy. That, 30 years ago, the situation in China would have resembled that of Laos, where material gains and possessions would have been less important. It is therefore possible that with economic development, Northern Laos will follow the path of China, and that material gains will become more important for social capital here as well.

## 6.3 Reflection and revised conceptual framework

The interpretative structured case methodology, used for this project, provides clear structures for case study research (Caroll & Swatman, 2000). The second round of research has now almost reached conclusion. The plan, the data collection, and the analysis have been completed – and the remaining steps of reflection and design of a revised conceptual framework will be covered below. This is highlighted in green in Figure 6.1.

**Figure 6.1 Interpretative structured-case model (adapted from Caroll and Swatman, (2000), p.240**
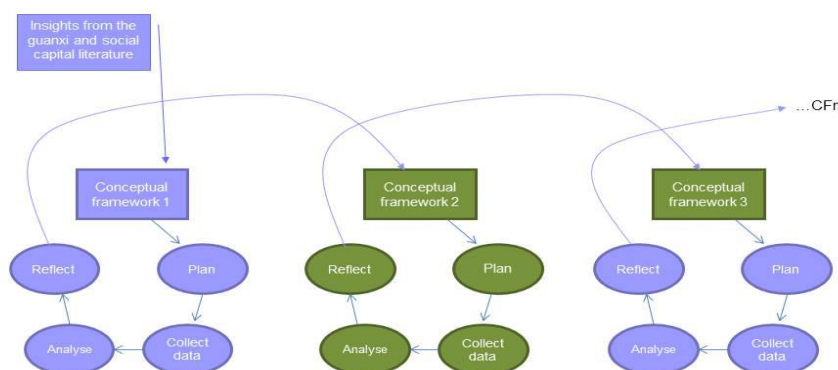


The first part of the reflection relates to feedback from experts. These include respondents from Northern Laos, a *guanxi* expert from the Edith Cowan University in Australia, as well as the Director from the Centre for Research on Plurality in the Mekong Region at the

Khon Kaen University in Thailand. After the principal fieldwork concluded in late April 2013, leads from the data would also be discussed through ongoing communication (via email and telephone) with respondents until the second case study was finalised in December 2013. To ensure a thorough verification of all the results in their entirety, a copy of the research findings and revised conceptual framework was uploaded to an online forum; something that allowed key respondents to provide additional feedback. In later case studies earlier respondents was able to provide ongoing feedback of the evolving theoretical framework. That is, the pool of practitioners that provided feedback increased as more cases were added.

The second part of the reflection relates to the methods used to collect and analyse the data. After the fieldwork concluded for the first case study, and after the interviews were transcribed, it became clear that the first round of research involved too much data that proved difficult to handle systematically. For that reason it was decided to make the second case study more targeted in the data collection. This approach worked well and will be repeated for the third round of research. Moreover, this study comprise of two parts. The primary part aims to identify the form and use of social capital among FDIs in their interactions with locals in Northern Laos. The secondary part aims to identify the origins of the Lao version of social capital. This second part (which was less complex than the first) has during two case studies, and an extensive consultation of existing literature, been firmly established and will not be a focus of the third case study. This will allow the third case study to be even more targeted (on the form and use of social capital in Northern Laos).

The third part of the reflection relates to seeking clarification from the literature (Caroll & Swatman, 2000). An examination of the literature allows for an even deeper exploration of the extent to which existing theories (e.g. from neighbouring countries) may explain the use and origins of Lao social capital. Based on the analysis conducted, and the reflection methods used, a revised conceptual framework will be developed at the end of this chapter. Caroll and Swatman (2000) argue that although the plan, data collection, analysis, and reflection in the structured case model are illustrated as separate steps; in practice the movement through the stages is fluid and does not necessarily follow a sequential pattern. For this study, a non-sequential pattern was used, and most of the reflection took place during the data analysis (where the reflective discussion has already been incorporated).

For that reason, the following revised conceptual framework is largely a summary of the main findings made throughout the second case study/this chapter. That is, the evidence behind the revisions made to the conceptual framework, can be found in the corresponding sections in the analysis section.

**Local definition and concept**. During the fieldwork multiple sources confirmed, and ample evidence was found, that social capital is an important factor in Northern Laos. In spite of the importance, it was also documented no common local word exist for the concept. While new leads for a local word in the everyday Lao language were found, and investigated, the most suitable Lao word for social capital remains *teun tang sangkhom*.

One variation to the local concept, which emerged from the second round of research, relates to the importance of gift exchanges. These were found to be slightly more important than was initially assumed, and may involve wedding gifts, dinners or inexpensive items. Another variation relates to the strength of trust and relationships within the social capital networks. Here it was discovered that some transactions are done with people on the fringes of the social capital networks – suggesting that trust and strong personal relationships in some instances are of less significance than proposed in the original interpretation. These finding will cause smaller changes to the conceptual framework.

During the cases conducted it became clear that business in Laos differs from the Western idea of economic transactions; in Laos business is centred on social capital based around trust, obligations and reciprocity. What has been observed among the small to medium sized firms in Laos is business in its true word; a focus on relations and giving people what they want. In Laos, it is not about mass production, nor is it about impersonal marketplaces where businesses services thousands of customers (and where they do not particularly care about what any of them thinks). Rather, in Northern Laos it is about looking after one's network and customers. This is similar to the situation in Europe before the industrial revolution. Back then, if the local tradesperson did not look after his networks, if reciprocal and obligatory principles were not honoured, rumours would swiftly spread through small communities and business models would be in tatters.

**Bonding social capital**. Data from the both case studies documents bonding social capital forms an important part of social capital in Northern Laos. A need for trust was found to be a key reason why bonding social capital is important in Northern Laos. The fact that almost all smaller Lao businesses are family run, confirms bonding social capital is a predominant feature in Lao society. During the second round of research, the importance of attending ceremonies as a means to strengthen bonding social capital was further emphasised (and protocols to foster social capital through ceremonies were refined). The only area that differed from the first case study was in regard to FDI's use of bonding and trust within the family; where the respondents from the second case study relied less on families to operate their businesses (than what was found to be the case in the first round of research).

**Bridging social capital** was found to be critical in Northern Laos; especially for outsiders (FDIs) who are not born into a given bonding community. It was documented that is possible to move from an outsider to an insider in the social capital networks – and a number of paths were identified that can make this transition materialise.

**Linking social capital**. A key difference between Laos and its ideological counterparts, relates to state involvement in business (Deng & Kennedy, 2010; Pearce & Robinson, 2000; Wang & Ap, 2013; Yeung & Tung, 1996). In China and Vietnam, the literature documents a high degree of state involvement in business (something that requires businesses to have linking social capital). This differs from the situation in Laos, where the government is much more business friendly, allowing small businesses to be privately owned in most industries (something that lessens the need for linking social capital among small to medium sized businesses).

The clearer separation between government and small business in Laos is the result of a number of factors. One reason relates to the lack of Confucianism in Laos (which proscribes clear hieratical relationships). Another factor relates to the business friendly policies adopted by the Lao government to attract foreign investors (to make up for the complexities of investing in a landlocked country with a very low GDP). A third factor relates to the fact that the communism, and the associated tight central control, was never implemented to the same extent in Laos (as it was in the neighbouring communist countries). R1 (personal communication, April 14-28, 2013) explained the difficulties of

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implementing central control in the inaccessible regions of Laos would have been immense, something supported by R22 (personal communication, April 14-28, 2013) who argued:

*"If you go to some outside areas you can still find stone age, literally."*

R22 elaborated that the situation in Laos differ to that of China, where the Cultural Revolution basically put everyone in the same direction and established tight government control (which augmented the need for linking social capital). In spite of the relative clear separation between government and business in Laos – it was in the second case study discovered that FDIs in Northern Laos use linking social capital somewhat more than what was initially anticipated. That linking social capital can provide a number of benefits. This finding will cause a slight modification of the conceptual framework.

**Face and social obligations** has for this study been analysed in light of the social capital discussion. A particular focus of the research has been on ways in which face can lead to improved social capital. During the second case study, it became clear that it is important to save face through politeness, consideration of other people's feelings, and indirectness. It was also revealed that face has another side that relates to goodwill and the public image of a person. This latter part of face is what really matters for the social capital discussion; it is in the form of goodwill that face can be used to secure social capital.

**Uncertainty and change**. During the second round of research, the finding from the first case study was reaffirmed, that uncertainty and change is one of the factors that has contributed to social capital development in Laos. Basically, Lao history has been marked by transformations; the people of Laos have been forced to adopt, migrate and change their livelihoods due to conflict, instability and radical political and economic changes. The extant literature confirms that people exposed to uncertainty and changes tend to counterbalanced this by strong reliable social networks (Cook, 2005; Michailova & Worm, 2003; Narayan & Pritchett, 1999).

**Limited legal infrastructure**. The fieldwork conducted for the second round of research endorses the findings from the first; that the Lao legal system is relatively weak and that social capital based on mutual trust compensates for legal deficiencies. This is supported by Gunawardana & Sisombat (2008) and Leung et al. (2010) who documents the

limitations of the Lao legal system, and by Michailova & Worm (2003) who argue that tight personal relationships are inevitably reinforced in contexts where people are not protected by law.

**Collectivism**. The finding from the first case study that Laos is a collectivist society, and that collectivism is a building block of Lao social capital, was firmly established during the second round of research. Basically, Lao people are deeply embedded in strong interdependent relationships; and these reinforce the need for norms, trust, and social relations (which also form part of *teun tang sangkhom*). This interpretation is confirmed by the extant literature, where Dunning & Kim (2007) and Yeung & Tung (1996) argue collectivism supports high levels of social capital.

**High power distance**. Chinese social capital was initially used as a benchmark to explore the concept in Laos – and literature from this neighbouring country suggests high power distance contributes to (linking) social capital development (Banfe, 2011; Dunning & Kim, 2007; Hitt et al., 2002; Park & Luo, 2001; Yeung & Tung, 1996). For that reason one of the factors that was researched, and later found to have contributed to Lao social capital, was high power distance. While power distance was found to be less steep in Laos than China – it was firmly established that powerful actors in Northern Laos gain face when they help weaker members of the community or their social capital networks. The importance of being seen as a good pillar of the community, was during the second round of research identified as being somewhat more important than what the first case study suggested. This was confirmed by all the key respondents (who all have a history of helping people in need) - and will cause a slight modification to the conceptual framework.

The main findings from the first case study conducted in Northern Laos are illustrated in the updated conceptual framework (Table 6.6).

**Table 6.6 Revised conceptual framework - social capital components**

| Social capital components | Laos |
|---|---|
| Local definition | Teun tang sangkhom is a personal relationship based around trust, reciprocity, and obligatory principles. Successful business operations require good networks (and good relations with regular social interactions are at the core of these). In business teun tang sangkhom can be used as an investment in social relations to help facilitate returns in the marketplace. |
| Bonding | Teun tang sangkhom operates in tight-knit communities where members bond through group identification. Family members are normally at the core of the Lao bonding communities – with other people (with whom actors have lesser bonds) on the fringe. |
| Bridging | The gap between insiders and outsiders can relatively easily be bridged. A number of paths can be pursued for bridging to take place (and to turn the initial weak social capital among actors into a strong bond). They include a focus on accruing face, a focus on relationships (as opposed to business), social interactions, repeat business, modesty, taking a genuine interest in the Lao, trustworthy operations, humour, and fulfilment of obligatory and reciprocal principles (including soft gift exchanges). Intermediates can also be used to bridge the initial gap between insiders and outsiders. |
| Linking | Due to a relatively clear separation between government and small to medium businesses, linking social capital is not as important as bonding and bridging social capital among small businesses. The research revealed that linking social capital is more dominant in areas traditionally controlled by the government and/or among larger and more influential businesses. When one seeks to establish linking social capital, it can largely be fashioned using the same methods as is used to bridge the gap between insiders and outsiders. |
| Face and moral obligations | Na refers to face and forms part of teun tang sangkhom. In Northern Laos it is important to save face through politeness, consideration of other people's feelings, and indirectness. Face also relates the reputation and goodwill a person holds. This latter part of face is what really matters for the social capital discussion; it is in the form of goodwill that face can be used to secure social capital.<br>In order to secure reputation and goodwill, one must understand the norms and behaviours, or social obligations, which reinforce and strengthen the public image of a person. Social obligations involves the provision of favours to one's social capital network (and ideally also the wider community), return of favours when these are received, respect when dealing with superiors, attending and hosting ceremonies (ideally with powerful actors), being a sociable person, taking a genuine interest in the locals, being reliable and trustworthy, and to a smaller extent display of materialism (to build a public image of perfection). |

The primary aim of this research was to identify the form and use of social capital among FDIs in Northern Laos. A secondary aim of the study was to examine the origins of social capital in Laos. Table 6.7 summarises key factors that helped sculpt Lao social capital.

**Table 6.7 Revised conceptual framework - social capital origins**

| Social capital Origins | Laos |
|---|---|
| Uncertainty & change | Lao history has been marked by transformations. The people of Laos have been forced to migrate and change their livelihoods due to conflict, instability and significant political and economic changes; circumstances that have been counterbalanced by strong reliable teun tang sangkhom networks. |
| Limited legal infrastructure | Personal networks and connections, based on mutual trust and obligatory principles, compensates for legal deficiencies in (Northern) Laos. |
| Collectivism | Laos is a collectivist country where people are deeply embedded in strong interdependent relationships. This reinforces the need for norms, trust, and social relations (which also forms part of teun tang sangkhom). |
| High power distance | Karma supports high power distance – and inequalities contribute to the distinct version of social capital (in particular linking) that exists in Northern Laos. Powerful actors gain face, na, and good Karma when they help weaker members of the community (or within their social capital networks). |

## 6.4 Summary – case two

The second case study has now come to a conclusion. Some new discoveries were made during the second round of research – which allowed the conceptual framework to be further refined (and the findings to be further strengthened). The revised conceptual framework formed the basis for the third case study which was conducted over two field-trips in 2013 and 2014 (and which will be covered in the next chapter).

# Chapter 7 - Case Three

This research project has now reached the third round of research. This chapter will initially outline the setting and planning that took place before the fieldwork commenced. This will be followed by a discussion of the data collection and analysis. In the final part of this chapter a revised conceptual framework will be developed based on the findings from the third case. While both case one and two were made up of rather comprehensive case studies – the third case study will be shorter. The focus will specifically be on the form and use of social capital in Northern Laos and exclude the origins of social capital (as these have been firmly established in the previous case studies).

## 7.1 Planning and data collection

The third round of research is based around three foreign direct investors in Northern Laos. In line with the structured-case methodology (Caroll & Swatman, 2000; Koeglreiter et al., 2012), the topics researched and the questions asked of the respondents were similar to those of the second case study; the key difference being the revised conceptual framework and the associated revised questions (which evolved from the discoveries made during the second case study).

Throughout the third round of research the process of validating findings through data and methodological triangulation, where the phenomenon of social capital in Northern Laos was examined from different perspectives, was further advanced. Generalisability was strengthened through the addition of more businesses, more respondents, and through the use of a range of data collection techniques. Basically, having the same story emerge from a number of cases, respondents, and data sources adds to the robustness of conclusions made (Yin, 2009).

### 7.1.1 Fieldwork and setting

For this research project four separate fieldtrips were undertaken in Laos (and in addition to these the researcher also met up with respondents in Europe). The first fieldtrip was an exploratory study which took place in 2006. During this initial visit, the groundwork was

laid and the ideas for the research took form. The second was conducted in 2012; during which data collection took place for the first case study.

The researcher revisited Northern Laos in April 2013. This fieldtrip served the dual purpose of gathering data for the second case study – as well as laying the foundation for the third case study (which this chapter will focus on). During the fieldwork for the second case study, initial interviews and observations were also undertaken for the third round of research. A fourth research trip was undertaken in October 2014 to finalise the third case study. In-between the fieldwork conducted in 2013 and 2014, ongoing interviews were undertaken with respondents in Laos via telephone, emails, and Skype.

## 7.1.2 Participants to the research

The third case study is based around three FDIs. The first respondent was a Canadian national (R25) who operates a tourism business in Vang Vieng that caters for tourists seeking artistic experiences in Laos and the surrounding countries. The business also operates a small guesthouse and restaurant which is managed by R25's Lao wife. The business employs four staff. During travels through Asia R25 came to Laos, met his wife, and settled down. Fifteen years later R25 (personal communication, April 20, 2013) declared:

*"It is the best thing that ever happened to me."*

This declaration echoes statements made by the second respondent in the third case study. Originally from the United Kingdom, this respondent lived for seven years in Hong Kong before moving to Laos. R26 (personal communication, February 5-6, 2014) explained:

*"I don't think there's a more enchanting place to live in South East Asia. When you take the kindness, humour and wonderful manners of the Lao people and add it together with the sheer majesty and beauty of the scenery, I don't think there's a better place to live."*

This respondent now operates two hotels in Northern Laos. R26 first came on holiday to Laos and, like most other respondents before him, fell in love with the tranquillity and beauty of the place. When he later returned for a second holiday, he discovered that the

hotel that he was staying at was for sale. He decided to make a bold investment, and in 2002 he opened his first Lao hotel. R26 now employs 50 staff and is locally married.

The third respondent, R1, was the original FDI who participated in both the first and the second round of research. He was also included in the third round of research, as he is considered the most experienced and knowledgeable FDI in Northern Laos on the topic of social capital.

## 7.2 Data collection and analysis

In the following, and as recommended by Caroll and Swatman (2000) and Yin (2009), the latest conceptual framework will be used as codes for the data-analysis. One key difference in case three, with that of the previous case studies, relates to the origins of social capital in Northern Laos. Based on the research conducted up to this point, the origins of social capital in Northern Laos has been firmly established and will for that reason not be further investigated. This allows the third case study to be smaller and more focused (on the form and use of social capital in Northern Laos). The rationale for this decision was provided in the second case study.

### 7.2.1 Bonding context

Through the previous case studies it has been documented that bonding forms an important part of social capital in Northern Laos. The third round of research confirms family members can be found at the core of the Lao bonding communities (with other people with whom a given actor has bonds on the fringe). All three respondents included in the third round of research are locally married and employs family in their businesses. Bonding social capital was discussed 11 times during the third case study. Selected comments from the third case study can be viewed in Table 7.1.

**Table 7.1 Selected comments - bonding social capital**

| Total References: | | Selected Comments: |
|---|---|---|
| 11 | R26 | *"I think the family bonds are very strong."* |
| | R26 | *"Having a Lao wife would certainly help."* |
| | R25 | *"I know every Westerner living here, who have tried to do anything, ever succeeded with having the right connections."* |
| | R25 | *"It (family bonds) is the strongest; it is the strongest of all the bonds, of all the connections."* |

During the third case study the significance of bonding within Lao social capital was stressed multiple times. R25 explained about kinship connections in Laos:

*"It is the strongest; it is the strongest of all the bonds, of all the connections."*

R25 elaborated that a key reason for the strong bonding social capital in Northern Laos is the fact that Laos has few public services – and because people rely on their families for most things (e.g. financial security). This was confirmed by R26 (personal communication, February 5-6, 2014) who explained that in retirement people are:

*"…looked after by the family."*

That is, one of the reasons for the strong bonding social capital in Lao society is the fact that families provide the fundamental support system. Social capital has through three case studies been found to be an important resource that is knitted into the fabric of Lao society. R25 (personal communication, January 22, 2014) explained:

*"You are completely lost without connections. I know every Westerner living here, who have tried to do anything, ever succeeded with having the right connections."*

Another key reason for bonding in Northern Laos, for establishing close business networks, was identified by R25 as being a lack of legal protection. This mirrors the

findings of the previous case studies, where social capital and strong business networks were found to substitute the limited rule of business legislation. R25 (personal communication, April 20, 2013) explained about written contracts in Laos:

*"They do have contracts, but contracts are really not worth the paper they are written on, but they are prolifically written, and they have them everywhere...we are involved in a lease, we had another restaurant where we paid for the lease for 8 years. Now we had it all written out, and we had it all signed and stamped, all official. Well, at the end of the day we only got 6 years of lease out of them, and we had to leave. The lease was worthless and that happens here all the time. So contracts are drawn up everywhere, all the time, but they are worth nothing."*

The lack of legal structures was confirmed by R26 (personal communication, February 5-6, 2014), who thought the lack of legal structures actually made things easier (as long as business is based on trusted networks). Even so, it has throughout the research been documented contracts are still scripted. R25 (personal communication, April 20, 2013) provided an example of a detailed contract that had to be written before he could be married:

*"When my wife and I got engaged, I had to write a contract for our engagement and our wedding...I had to write an agreement to pay her a certain amount of money if we should divorce or separate. Plus should we be overseas, I should supply her with a ticket to return home. Plus one pig."*

The latter part of this explanation left the researcher a little puzzled, as he did not expect a pig to be included in the matrimonial contract (but that turned out to be accurate). Even though contracts are written R25 (personal communication, April 20, 2013) emphasised the difficulties of contract enforcement in Northern Laos:

*"I do not think they are particular enforceable; I know they are not enforceable, but they still have them."*

That is, in Northern Laos it is not so much about what is in the contract; it is about what is in the relationship. One may wonder why prolifically written contracts are written when they are insignificant. When asked about the earlier finding that contracts are drawn up

primarily for the parties to remember what was agreed upon, as opposed to a legal document in the Western sense, R25 (personal communication, April 20, 2013) confirmed this to be the case. Another plausible explanation could be that it is a tradition that was introduced by the French when Laos formed part of French Indochina (1893-1953). When asked what would happen if someone sought to enforce a business contract, R25 (personal communication, April 20, 2013) explained:

> *"I don't know of anyone who has done it. I certainly wouldn't do it, because I know I would be wasting my money anyway."*

R25 elaborated that the locals would not only be better connected, but also know what wheels to grease. This was confirmed by R26 (personal communication, October 3, 2014) who was involved in a car accident in Vientiane, and who explained that even though his car was hit by a drunk driver while stationary on the side of the road, the offender was not charged due to connections. The complexities of settling a dispute through the courts would be amplified by the fact that a court case most likely would involve powerful actors (who would be well connected). That is, the fieldwork conducted for the third round of research endorses the findings from the previous two rounds of research; that the Lao legal system is relatively weak and that personal connections, or social capital, based on mutual trust compensates for legal deficiencies.

While bonding social capital naturally occurs in close-nit entities (e.g. families), the fieldwork through three rounds of research has firmly documented it also include groups of people in similar situations with common interests (e.g. friends). R25 (personal communication, January 22, 2014) explains what happens when friendships have been developed:

> *"When you have made the connection and become friends, then yes, they would want to help you."*

This is exactly what social capital in business is about; creating a bond that enables the accomplishment of desired outcomes through norms of reciprocity (Coleman, 1988; Putnam, 2001b; Putnam & Helliwell, 2007). When social capital has been developed outside of the family unit, one of the keys to maintaining and strengthening bonding social

capital was found to continuously cultivate social capital networks (R25, personal communication, January 22, 2014; R26, personal communication, October 3, 2014).

In summary, the findings from the previous two case studies, where bonding social capital was documented to be important for small to medium businesses in Northern Laos, has been reaffirmed during the third round of research. No new discoveries that will cause changes to the conceptual framework emerged.

## 7.2.2 Bridging context

In the previous case studies it was documented that it is possible for outsiders to gain access to the bonding communities (discussed above) through bridging social capital. While bridging social capital initially will encompass looser relationships, than those discussed under bonding social capital, they have the potential over time to develop into bonding social capital (Beugelsdijk & Smulders, 2003; Grafton, 2005; Putnam, 2005, 2009; Woolcock, 2001). During the third case study bridging social capital was discussed 25 times. Selected comments can be viewed in Table 7.2.

**Table 7.2 Selected Comments - Bridging Social Capital**

| Total References: | | Selected Comments: |
|---|---|---|
| 25 | R25 | *"You have to find trustworthy and reliable Lao people to work with. Otherwise you would have no chance at all."* |
| | R26 | *"Going to local celebrations events and things like that where you come across these people with a certain amount of power in a social environment, it certainly helps with getting connections, particularly as a foreigner."* |
| | R25 | *"If you do not know them you cannot trust them. It is not until you really know them that you can."* |
| | R26 | *"...I can see it has certain distinct advantages (being sociable)."* |
| | R25 | *"If you can spend the time to develop your connections, which is actually developing friendships, it is going to be a much more pleasant experience. And, far less expensive."* |
| | R25 | *"It is the connections that have got things done."* |

Bridging social capital performs an important role, especially for outsiders who are not born into a given bonding community. During the third round of research R25 stressed the importance of bridging social capital; of being able to establish local connections. R25 (personal communication, April 20, 2013) explained that without the ability to bridge the gap between insiders and outsiders:

*"Nothing will happen. You will never get your licenses; you will never get your approvals."*

R25 elaborated that he was fortunate to be locally married (to a woman with many connections and strong social capital). In spite of this, many procedures still take considerable time (in particular in areas where his wife does not have the needed social capital). R25 (personal communication, April 20, 2013) provided an example:

*"It is the connections that have got things done. I'll give you an example of our guesthouse here. For seven years we were trying to get the paperwork through, to get a license for an overnight guesthouse. We kept going to the wrong people, and they kept saying yes, no problem, we can get it done, but it never happened. We were never successful in getting it done. Until suddenly you find the right person and then, bang, it is done instantly. So, if you do not find the right person, it is never going to happen."*

This story parallels findings made in earlier case studies. For example, in the first case study the importance of finding the right people, or the fixer, in government offices was documented (something that can be accomplished through networking and by asking around). R25 (personal communication, April 20, 2013) elaborated that foreigners who has not married into local connections, would only succeed in Laos if they could establish at least one very close connection, a first connection, with established social capital in relevant networks.

The expatriate community in Northern Laos is fairly small, and R1 is known to R25 and the researcher. R25 explained that although R1 is locally married, and while his local wife has many connections, this FDI also makes extensive use of his first connection's (his head manager) additional networks. Thinking back to interviews conducted with R1, many references were made to the head manager's ability to network and build bridges, and to

the benefits that R1 derived from his social capital. This assessment, that foreigners in Northern Laos only succeed if they are locally married, or if they have a first connection, has been confirmed by many respondents throughout the three case studies. The majority of foreign respondents involved in the research were locally married and the remaining was found to have developed close social capital networks. While the researcher has interviewed a broad range of respondents, no encounters were made of foreigners who did not fit into at least one of these two categories (married or first connections). The only evidence of foreigners going it alone was the many stories of failed enterprises. R25 (personal communication, January 22, 2014) elaborated on the topic of close connections:

*"There are so many people who come here to set up an NGO and go home. They can never get a memorandum of understanding with the government because they have not got connections. It just does not happen. I got friends who have set up NGOs and they have only succeeded because they have developed those connections. So it is not just in business, it is every aspect of life."*

In the previous two case studies it was documented that the Lao people enjoy company and meeting new people, and that this openness enables foreigners to establish weak bridging social capital. It has also been documented that one must work hard to turn this weak bridging social capital into a strong bond. Ways in which the gap between outsiders and insiders can be bridged, and strengthened, was discussed with respondents in the third round of research – and the findings parallel those of the previous two cases. The methods to bridge the gap between insiders and outsiders will be discussed below. They include patience and relationship building, modesty and a genuine interest in Lao people and culture, repeated business, trustworthy operations, and intermediates. A focus on accruing face, or Na, in the form of goodwill will also progress the transition from outsider to insider (and will be discussed later in this chapter).

**Patience and relationship building** forms an important part of bridging social capital. When R25 (personal communication, January 22, 2014) was asked how newcomers in Laos would find trustworthy and capable people to work with, he replied:

*"Oh boy, that is a tough one. You see, I didn't go looking for anyone, just met my wife. I guess, looking at others who has done the same thing, it has been purely luck if they*

*struck the right person or not. Some people have been ripped off and had everything*
*taken from them, others have been lucky and found the right person and succeeded."*

In the research so far, it was established that actors must be patient and focus on relationship building in order to find capable and trustworthy business partners. This was confirmed by R25 (personal communication, January 22, 2014) who suggests:

*"You have to talk to as many people as possible, not telling anybody your plans and look for connections. Make friends with the right people. Once you are friends with the right people, and that can take a long time, then start doing what you want to do."*

This echoes statements made by R23 (personal communication, April 15-26, 2013), who in the second case study stated that even after many years in Laos, he still makes an effort to attend all the events that he is invited to (as this provides good networking opportunities). In the research conducted, it has been established that the Lao people are very open, and that weak bridging social capital can easily be established. However, getting to a stage in a relationship where strong connections become possible is harder. During discussions with R25 (personal communication, April 20, 2013), it became clear that patience forms an important part of social capital building in Northern Laos:

*"If I wasn't married I would not attempt anything, because I know I would not succeed. Plus I do not have the patience you need. Lao people got infinite amounts of patience and Westerners tend to be the opposite."*

The patience among the Lao, that R25 refers to, has been observed everywhere during four field trips to Laos. Very few people, if any at all, seem to be in a hurry. People engaging in conversations; shopkeepers talking to customers, farmers and their families sitting in small open huts, and people hanging around small food stalls chatting. In 2006, when the author drove around Northern Laos during the winter months – great care had to be taken at dusk, as people would be lying on the warm asphalt soaking up the remaining heat. Of course, the unhurried Lao way of life is one of the reasons tourism is booming; it is a place where people take time to live, and for that reason, is a very attractive destination for people seeking to unwind. R25 (personal communication, April 20, 2013) elaborated that foreigners should be prepared to:

*"Sit back and watch the grass grow."*

This was exactly what the previous case studies identified as one of the prime obstacles for foreigners in Laos. Here it was discovered one of the major reasons foreigners struggle in Laos, is that they are too focused on reaching their goals (to effectively bridge the gap with locals). R25 (personal communication, April 20, 2013) explained what hypothetically would happen if he engaged in Lao business dealings:

*"I got zero patience. I would explode in frustration, but if I get out of the picture, out of the play, and leave it to my wife, then she'll smooth it over, fix it up, and it will get done."*

For that reason, R25 concentrates on his business that serves Western clients with compatible mind-sets.

**Social interactions**. In the previous case studies it has been established that social interactions and community gatherings are important for both bonding and bridging social capital. It was also established that an important part of Lao social life relates to ceremonies (e.g. weddings, *Baci*s and *Songkran*). While participation in ceremonies can strengthen bonds, they also serve as an avenue for people to bridge the gap between insiders and outsiders (without being seen as too aggressive). When R26 (personal communication, February 5-6, 2014) was asked about ceremonies as a possible way to get to know the right people, he responded:

*"It certainly helps. I'm conscious I'm not particularly sociable, but my wife is, and I can see it has certain distinct advantages. So I would say it certainly helps. For instance, going to local celebrations events and things like that where you come across these people with a certain amount of power in a social environment, it certainly helps with getting connections, particularly as a foreigner."*

That is, through ceremonies one can establish the initial bridging social capital. Where weaker connections are in place, ceremonies can help strengthen bonds through continuous interactions. The more interactions that takes place, and the more relationships (and ideally friendships) and favour exchanges develop, the stronger social capital becomes. When seeking to establish bridging social capital, any social interaction where

relationships can be formed, can serve the purpose of establishing social capital. In the previous case studies it became clear that sport and games could be effective pathways to social capital. Sport was found to be an important recreational activity for Lao and, like ceremonies, is an avenue through which one can bridge the gap between insiders and outsiders (without being seen as too aggressive). R26 (personal communication, February 5-6, 2014) confirmed that sport could be useful for social capital:

> *"I don't play golf, but there is a golf course here in Luang Prabang, as you probably know, and it is a quite expensive course, but I am sure all sorts of deals get done there."*

**Modesty and genuine interest**. During the research conducted so far, it became clear that being humble and taking a genuine interest in the community may speed up the process of bridging the gap between insiders and outsiders. Interviews and observations revealed most respondents share the common traits of being respectful and humble, that they genuinely take an interest in the Lao people and culture, and that they care about the locals. This was confirmed by R26 (personal communication, February 5-6, 2014) who explained about participating in local cultural ceremonies:

> *"Yes, I think it certainly helps, your face is seen and you are seen to be doing things in their local culture."*

The importance of being modest and to take a genuine interest in the local culture was also confirmed by R25 (personal communication, April 20, 2013), who explained that locals expect foreigners to conform to their behaviours – and that if one seeks to bridge the gap between insiders and outsiders one should:

> *"I guess being extremely sensitive to the cultural behaviour. The local cultural behaviour – as in saying the right things, doing the right things."*

Saying and doing the right things relates to saving face (which will be discussed later in this chapter). The importance for social capital of taking a genuine interest in the locals was also confirmed by the extant literature. Here Boase (2003) argues foreigners who arrive in Laos with a Western mindset of how business should be done will generate resentment and hinder cooperation; but that Lao will be quite accommodating as long as

they get the feeling foreigners care for them and their country. That is, cultural sensitivity is one of the components for the establishment of successful bridging social capital.

**Humour**. Another avenue to establish the initial weak bridging social capital that can help connect insiders and outsiders, was in the previous case studies found to be through humour. When R25 (personal communication, April 20, 2013) was asked if humour could be used as a tool to bridge the gap between insiders and outsiders he responded:

*"Yes. Absolutely."*

R25 explained that humour can also strengthen existing relationships – and provided an example of his wife who often makes jokes about the respondent's big nose (compared to local standards) in social settings. When R26 (personal communication, February 5-6, 2014) was asked about the potential to use humour as part of bridging social capital he responded:

*"Definitely. Definitely an ice-breaker and certainly an important part of making any social event comfortable for everyone. I think, yes, absolutely. You come across it in unusual and encouraging ways. For instance, I get uniformed characters turning up on my doorstep and…in the early years it was sort of alarming when these guys in uniforms used to come and sit down, they all look a bit serious – but once you got them sat down and you said something amusing they all grinned away and it is very funny. So quite quick with humour. In the West their equilliance would not be the same."*

That is, it has already been established that an important part of Lao social capital is social interactions – and here humour fits in well. This finding corresponds well with the finding from the first two case studies where the Lao were found to be less concerned about material gains and more about good and harmonious relations. As part of initial relations (bridging social capital) humour can be used as an ice-breaker – and as part of established connections (bonding social capital) humour can be used to cement the relationship.

**Trustworthy**. A recurring theme, which persistently emerged during interviews, was a concern of trust. While it is relatively easy to initiate weak social capital and bridge the gap between insiders and outsiders, all respondents stressed the importance of finding the right people with whom to network. That is, people who are trustworthy, who are capable,

and who has the right connections. It became clear that this is especially something foreigners grapple with as they tend to be bad judges of Lao people (and because they have little or no networks when they initially arrive in Laos). These findings were reaffirmed during the third round of research. When R25 (personal communication, January 22, 2014) was asked how foreigners would find trustworthy people to work with, he responded:

*"Thought one. It is a minefield. Firstly you have to find trustworthy and reliable Lao people to work with. Otherwise you would have no chance at all; you will get ripped off, you will end up with nothing."*

This was confirmed by R26 (personal communication, February 5-6, 2014). When he was asked about trust in Lao business, he responded that foreigners often start out by being trusting – but that they often learn the hard way. It has been documented through the previous two case studies, that many FDIs in Laos are former tourists, who as newcomers have limited local networks. These foreigners may, in their quest for speedy results, end up working with shady characters (R1, personal communication, April 8-19, 2012).

R25 (personal communication, April 20, 2013) commented on the process of bridging the gap between insiders and outsiders, that one must be patient, network with as many people as possible, and take the time needed to develop strong relationships. That only when trust and stronger social capital has been developed, will it be possible to successfully conduct business in Northern Laos:

*"If you come in with no connections at all, and I have seen this all the time, you will end up getting the wrong person to partner up with and you will end up getting ripped off by that person…and you will go home very unhappy and disillusioned. It happens all the time."*

R25 explained that when foreigners find the right people, people who are both trustworthy and capable, then considerable emphasis must be placed on building the relationship (ideally to the point where it becomes a strong friendship). R25 suggested one way to do that would be to support that person and their family, for example through financial assistance to set up a business. In the case of a younger person, help could be provided for university studies. Either way, assistance would create an obligation on the part of receiver

and strong lasting social capital can potentially be developed (as long as reliable and trustworthy people are helped in the first place). This approach was observed in the previous round of research, where R23 helped youth (with special skills) pursue educational pathways. R25 explained that developing a very close relationship with a local, whether that be through marriage or by helping them, was the only viable option to develop the strong social capital that is necessary to navigate Lao business. R25 (personal communication, April 20, 2013) explained about close business connections:

*"It is not that different from having a wife, really. And, if they did not have at least one person that was very close to them, they would not be able to succeed. So you would have to have, I think you would at least need to have one person who can be your best friend in life, very very close, otherwise I do not think it can work."*

This was confirmed by R1 (personal communication, April 14-28, 2013) who elaborated that the key in Laos is to find someone with local knowledge; someone who knows how it works and who has the right connections. R25 (personal communication, April 20, 2013) elaborated:

*"That is the only model I have come across that works. Because everyone who has tried to do it aside from that model has failed; they have been burnet, they have been robbed, and they have gone home very very sad."*

According to R25, needed connections can be found through patience, through social engagements, and by asking around. When enquired about differences between Canada and Laos in regard to trust, R25 (personal communication, April 20, 2013) explained that in Canadian business one can trust agreements:

*"Because the law is in your favour. Whereas it is not in your favour here; there's virtual anarchy, really."*

R25 explained that the lack of legal structures provided a key reason to develop strong social capital networks. All in all, if one wishes to conduct business in Laos, it would be important to find someone who is both trustworthy and capable. This would ideally be someone who already has well established connections.

**Intermediaries**. During the first two case studies, it has been established that social capital is transferrable and that intermediaries can help bridge the gap between insiders and outsiders. This finding was reaffirmed during the third round of research, where R25 (personal communication, April 20, 2013) explained that intermediaries make:

*"...those tentacles reach a bit further."*

R25 elaborated that although one may have a valuable social capital network in Northern Laos, and while most common business operations probably can be handled through that network, there will be instances where assistance from outsiders is required. In such instances, R25 (personal communication, April 20, 2013) explained, an effective system exists where an actor can tap into connection's connections:

*"You usually find (officials who can help you) through your family relationships who are members of the administration or are very closely related to somebody who is. Or it could even be something like a neighbour who is high up in the government and you can go to them for help."*

When reliable intermediaries from one's own social capital network are used – a key benefit is the fact that they have an obligation to recommend someone trustworthy and suitable for a given job. Not meeting this obligation would harm their social capital and reputation. The importance of intermediaries was later confirmed by R26. While renovating his hotel, he would initially travel to Thailand for supplies, something that was time-consuming and expensive (R26, personal communication, February 5-6, 2014). Fortunately family connections introduced R26 to a reliable trader who transports goods from Thailand to Laos (with the right connections for fast and efficient operations).

In the first round of research, an example emerged where a tourist was in need of medical assistance, but could not get help as the hospital staff were not familiar with insurance papers. In that case assistance was provided because one of the respondents living in Northern Laos took on the role of an intermediary. Upon hearing this example, R25 (personal communication, April 20, 2013) responded:

*"That hospital example you just gave, we had exactly the same thing happen, exactly the same thing. We have gone in and my wife said to them, they are okay, they need*

*help. Okay, they know my wife so off they (the patients) go and they give them treatment. So that system works here, all the time."*

In summary, bridging social capital allows actors to move between the closed bonding groups and bridge the gap to outsiders (Putnam, 2005, 2009). The fieldwork documents bridging is a critical component of social capital in Northern Laos. It was documented that weak social capital is relatively easy to establish in Northern Laos (as the locals tend to be open and welcoming) – but that one must work hard to turn that into a strong bond. Being patient and modest, continuous interactions, repeated business, humour, being trustworthy, and intermediaries are ways in which this can be accomplished. Favour exchanges were also found to form part of the bridging process; in particular during weddings where envelopes with cash are given (and the amount provided will correspond with the importance of the connection) and during social interactions (where possible connections can be invited out). No new discoveries emerged from the third case study that will cause changes to the conceptual framework in regard to bridging social capital.

## 7.2.3 Linking context

Linking social capital refers to social capital that works on the vertical level through the linking of actors from different social and economic backgrounds. It can help individuals form links with people in a position of power – and it can connect actors with more formal institutions like government officials (Putnam, 2005; Woolcock, 2001). Linking social capital was discussed 10 times during the third case study. Selected comments can be viewed in Table 7.3.

**Table 7.3 Selected comments - linking social capital**

| Total References: | | Selected Comments: |
|---|---|---|
| 10 | R25 | *"She can get it done, because she has two connections, both of them very, very, high up..."* |
| | R1 | *"... it may be questionable if you meet the requirements, then it matters. Then it matters a lot if you know the right people. If things it are not clear cut. In every grey area it matters."* |
| | R1 | *"If you talk with officials you will not sit with your legs crossed or sag in the chair."* |
| | R26 | *"Luckily my wife has various connections with (officials)...you know, so it certainly has helped."* |

Compared to neighbouring Confucian countries, the research has so far identified a relatively clear separation between government and small to medium businesses in Northern Laos. In spite of this, government assistance and cooperation are still needed in many areas – and linking social capital has for that reason been found to be important to develop. This was confirmed by R26 (personal communication, February 5-6, 2014) who provided an insight into the benefits of linking social capital:

*"Recently we had a fire in our laundry…it burned down, but also burned down the neighbour's house on one side completely, and also burned a third house…so you know, a fairly sizable fire and it took a long time to get under control and, you know, pretty awful, really. So, you know, the investigators have been trying to sort all that out, you know, but luckily my wife has various connections with the police…so it certainly has helped."*

When R25 (personal communication, April 20, 2013) was asked how one would establish linking social capital it became clear that weak connections would not be difficult to establish in cases where foreign investors have significant financial resources:

*"Officials will come to you. If they see someone with very deep pockets, pockets that are bludging, they will decent on you. I can get that done for you, it will cost $10.000.*

*And the problem is, because they haven't built up any connections, that is the only way they got."*

R25's advised foreign investors without deep pockets to be patient and take the time needed to develop linking social capital. The methods used to establish linking social capital mirrors those identified under bridging social capital. An additional factor when developing linking social capital is to understand and respect the hieratical nature of Lao society (R25, personal communication, April 20, 2013):

*"In my job in Canada I used to meet the Prime Minister of Canada, the Premier of British Columbia and Prime Ministers from overseas, and I would call them by name and shake hands and ask how are you going? How are you today? Straight talk, but here it is different. The thought that you would shake the hand of the Prime Minister here and say how are you today – people would be horrified."*

In the previous case studies it has been established that Laos has a high power distance culture. Within this high power distance, R25 (personal communication, April 20, 2013) elaborated on the topic of developing linking social capital (and the need to show respect):

*"You got to get down on your hands and knees and grovel to them… basically, if a person is in a position of influence you grovel to them."*

While this statement may be a bit excessive – the idea behind it was echoed by R26 (personal communication, February 5-6, 2014) who emphasised the importance of acknowledging the status of superiors. R26 explained that one must make a point of being more respectful when dealing with officials. In the case of R25, it became clear that he leaves all linking social capital development to his local wife, as he finds it hard to display the submissiveness required. Another very important point in linking social capital development, R25 (personal communication, April 20, 2013) stressed, would be to provide favours:

*"...to finding a way of helping. Or providing something that, the person you want to help you, gains."*

Social capital involves relationships with common interests, reciprocity and collective strength – and it enables holders to access resources that are available in the community. The above statement is what social capital is all about; to provide and receive favours for the mutual benefit of all parties. R25 provided an example of what can be accomplished when linking social capital is in place. When R25 married a Lao woman, he also married into her bonding social capital networks. Within this network a number of higher officials reside. One of these higher officials offered to arrange a residency for R25 (what the locals call a family book). During the following discussion it became clear that the linking social capital would make the visa application process a lot easier (R25, personal communication, April 20, 2013):

*"Without them it could never happen. I know other Westerners who have tried to do it, and failed, because they started where you would expect to start, but it is the wrong person, and they got money, probably more money than we got, but it is the wrong person so it never happened. But other people have had the connections and the money, you always need to have the money, but they have had the right connections and they got it done. So in this country everything, no matter what you look at, if you haven't got the connections it won't happen."*

As indicated in the discussion above, R25 believes strongly in the importance of linking social capital; that sufficient linking social capital can pre-empt many of the complexities that has been documented with bureaucratic processes. This discussion parallels that of earlier case studies, where it was discovered that the actors with linking social capital found authorities to be fast and efficient, whereas actors who held less linking social capital tended to rely on time or economic capital to accomplish desired results. R26, who has not sought to develop significant linking social capital, explained (personal communication, February 5-6, 2014):

*"I have always been very low profile and avoided all that, actually. On purpose, I chose to keep under the radar a bit. I just didn't feel it was a good idea."*

That is, some respondents have been found to believe firmly in the necessity of linking social capital – whereas others seem to get by without much. When these differences were investigated through interviews with R1, the importance of linking social capital was found to be influenced by the degree to which a business operates in an area of clear or

vague legislation. In cases where a business operates in an area where rules and approval processes are ambiguous, a high degree of linking social capital with officials would be needed. R1 (personal communication, April 14-28, 2013) explained:

*"If you open a small shop, for example, everyone Lao can do that. If you have a roof, then you can open a small shop. But if it is an area where it is difficult to get approvals...where it may be questionable if you meet the requirement, then it matters. Then it matters a lot if you know the right people. If things are not clear cut. In every grey area it matters."*

That is, whenever standard requests are made, and as long as people are willing to wait the normal period, then it is possible to get by in Northern Laos without significant linking social capital. However, whenever special requests are made or whenever something is in a grey legislative area, then linking social capital is of essence. Through the refection stage of the third case study, a *guanxi* expert from the Edith Cowan university was consulted to compare the Lao situation to that of China. Through this consultation, it became evident that *guanxi* is needed in nearly all instances in China (Grainger, personal communication, April 26, 2014) – and that the strengthening of corporate governance and legal systems have only marginally reduced the need for social capital in China. That is, the situation in China differs to that of Laos (where the need for social capital increases with legislative ambiguity). R1 (personal communication, April 14-28, 2013) elaborated:

*"It is an important point, actually, whenever something is in a grey area, then connections matter a lot. Whenever something is in a grey area then it is important to know the right people…you have to fine-tune your connections."*

In summary, during the third case study a few new insights into linking social capital were unravelled. The first relates to the importance of linking social capital when operating in grey areas of legislation. The other relates to the importance of showing respect for people who holds power and authority. These discoveries will cause small alterations to the conceptual framework. All respondents agreed linking social capital, when in place, can speed up processes and provide benefits. When one seeks to establish linking social capital, it can largely be fashioned using the same methods as is used to bridge the gap between insiders and outsiders (R1, personal communication, October 2-9, 2014; R25,

personal communication, January 22, 2014; R26, personal communication, October 3, 2014).

### 7.2.4 Face and social obligations

According to Coleman (1988), social capital cannot exist without accompanying norms and rules – and in Northern Laos many of these relate to the social obligations that are associated with face. Face and social obligations were discussed 28 times during the third case study. Selected comments can be viewed in Table 7.4.

**Table 7.4 Selected comments - face and social obligations**

| Total References: | Selected Comments: | |
|---|---|---|
| 28 | R1 | *"Face = goodwill = good reputation = social capital."* |
| | R1 | *"Face is something everyone has a right to; you should not make anyone loose face."* |
| | R26 | *"I think for instance, a common way for someone to lose face is by, in particular foreigners, by losing control, getting angry, losing their temper and shouting and screaming. That is a classic example of losing face. Your colleagues will think you cannot control yourself."* |
| | R1 | *"If you have developed a relationship, then it is embarrassing if you start to trade with others"* |
| | R26 | *"The language is, yes, vague, is how I will describe it. Vague. Also possibly designed to be vague, so that any misunderstanding will be blamed on the misunderstanding, rather than someone's fault, so no one loses face. It is an easy excuse."* |
| | R25 | *"It (face) is very important, and I have been guilty of officials loosing face on numerous occasions; which is why I have to stay out."* |

In the following an overview of the Northern Lao concept of face will be provided. The discussion will start with an outline of the importance of politeness, indirectness, and consideration of other people's feelings. This will followed by a discussion of face in light of goodwill (or as a representation of a person's social reputation, status and prestige). Finally, an overview will be provided of the social norms and behaviours that can reinforce and strengthen the reputation and goodwill of a person.

Through the previous case studies, it was firmly established that the most important part of face (in everyday Lao life) relates to saving face through politeness, through consideration of other people's feelings, and through indirectness. This is usually the first thing that springs to mind when respondents were asked about face, and it is supported by the extant literature from Thailand that culturally is very similar to Laos (Fry, 2014; Komin, 1990; Ukosakul, 2005). R1 (personal communication, April 14-28, 2013) explained:

*"Face is something everyone has a right to; you should not make anyone lose face."*

R1 elaborated that causing someone to lose face, for example by contradicting them in public, can unravel the carefully woven fabric of social capital. R25 (personal communication, January 22, 2014) explained about losing face:

*"Basically, if you tell them they are wrong, or they have done something bad, or stupid, they lose face. They try to pretend it hasn't happened. It is not a good thing."*

All the foreigners interviewed in Northern Laos manage local staff – and many of these were found to have caused loss of face among their staff through the utilisation of Western management practices. Intachakra (2012) argues this is not uncommon among Westerners who often have a different mindset to locals when it comes to rationality (and who may not appreciate how strongly natives believe in politeness). R26 (personal communication, February 5-6, 2014) explained that lack of self-control often leads to loss of face among foreigners:

*"It is mainly about losing face. I think for instance, a common way for someone to lose face is by, in particular foreigners, by losing control, getting angry, losing their temper and shouting and screaming…Your colleagues will think you cannot control yourself."*

Someone who cannot control himself will experience a loss of social reputation and goodwill in the eyes of the community. For that reason one should endeavour to maintain politeness and opt for gentle diplomacy. This was confirmed by R1 who provided a specific example of a foreigner who lost face through anger. When asked how that person could redeem lost face, R1 (personal communication, April 14-28, 2013) explained:

*"There was a Frenchman who ended up in a dispute with a bunch of people that he yelled at, and then during the national day, he raised extremely big flags in front of his hotel. Normally there are two, the Lao and the communistic flag, but he had raised the two biggest he could possible get his hands on, and I think that had the opposite effect. Then you should find a discreet way of building face. And, possible you could do some smaller things, discreetly. If a situation arises shortly thereafter, where it would be natural to donate, then that would be an opportunity, but if there was not a situation that called for donations, then I think it would seem misplaced. But, if something happens, and someone asks for a donation, then you can contribute more than you would normally have."*

These suggestions echo earlier findings; that in Northern Laos one should be delicate and indirect in one's undertakings – and that it should not be too obvious what one seeks to accomplish. During interviews with R26, the importance of preserving face through indirectness was stressed several times. When the interview turned to a conventional word for social capital in the Lao language, an interesting insight about politeness emerged (R26, personal communication, February 5-6, 2014):

*"And the language is, yes, vague, is how I will describe it. Vague. Also possibly designed to be vague, so that any misunderstanding will be blamed on the misunderstanding, rather than someone's fault, so no one loses face. It is an easy excuse. Ah, well, there was a misunderstanding. And it is true, the language is so vague, as a foreign student of the language you often wonder who is doing what and when because of the structure of the language."*

The importance of politeness for both face and social capital has been firmly established. In the above example, it is displayed in the vague language that possibly is designed to ensure no one can be blamed for the many complications that will be encountered in Laos. The point highlighted by R26 about the difficulty of getting a clear picture of whom does what and when – is an issue that has been raised by many foreign respondents. While the vague language may partly explain this difficulty, the tendency of locals to be indirect and talk around issues would amplify the uncertainty.

R25 (personal communication, April 20, 2013) provided an example of a situation in which he was confronted with fraudsters and disregarded the social norms relating to face:

*"I was lucky…they were just trying to run a scam of trying to get some money out of me. So instead of being mild and giving them the money...I completely exploded. Exactly the opposite of what you should do. Anyhow, they lost face so completely, because there were heaps of people around who had joined the spectacle…and they just wanted me to go away, get away, as quickly as possible."*

In the following discussion about this occurrence, it became clear that R25 got away because it was an isolated incident with people he would never deal with again. When asked if this direct approach could work in business, R25 (personal communication, April 20, 2013) responded:

*"Oh, no. You would get nothing done. No no no. I would not recommend doing it for anyone…I'll never do it again. Face is everything and they lost face."*

While it has now been firmly established that politeness is needed to prevent the loss of face – the focus for this study will be tilted toward ways in which face can be used as a catalyst to secure social capital. During this investigation it was revealed that face also relates to the reputation, goodwill, and public image of a person. This part of face is what really matters for the social capital discussion; it is in the form of reputation and goodwill that face can be used to secure social capital (i.e. bonding, bridging and linking). During an interview with R26, who lived in Hong Kong for seven years, the topic of face was discussed. When he was asked if he could explain how to build face in Laos, he responded (R26, personal communication, February 5-6, 2014):

*"Well I think, much the same as everywhere else, I think."*

During the second case study it was established that status, a good reputation and a positive public image all amounts to goodwill for a person. This was reaffirmed through the third round of research where R1 equated face with goodwill, a good reputation, and social capital (personal communication, February 21-28, 2014):

*"Face = goodwill = good reputation = social capital."*

R1 (personal communication, February 21-28, 2014) elaborated:

*"If viewing face as another word for status or reputation or public self-image, then it fits well. And, one could say you build face when you improve your name and reputation and that way it is connected with social capital."*

It is the part of face that relates to goodwill that really matters for the social capital discussion. It is in the form of goodwill that face can be used to secure social capital. When R25 (personal communication, April 20, 2013) was asked how one could build face, his response echoed earlier findings:

*"Ehm, I guess being extremely sensitive to the cultural behaviour. The local cultural behaviour – as in saying the right things, doing the right things. Very much being subservient."*

R25 explained that being subservient mainly relates to dealings with officials (linking social capital) where the acknowledgement of status can build goodwill. In dealings with peers (bonding and bridging social capital) being subservient would be less of an issue. R25 elaborated that when linking social capital has been developed, when face has been accumulated, one will not need to go the same lengths to build face through submissiveness.

During a discussion with R1 about differences between the concepts of face in China with that of Laos, it became clear that in R1's opinion face in China has been more institutionalised as a concept (personal communication, February 21-28, 2014):

*"I have a feeling that the Chinese have formalised or sophisticated the concept of face. In Laos you hardly know people last names, whereas there are fine names in China. That is my impression. When I went to school there was a family named Schwanfuegel, and that was a very fine family. The mum would talk like the queen and…that is the essence of what I'm trying to convey. That last name is face with all the bells and whistles, and I believe the Chinese cultivate that very formally, but the Lao do not. Even so, social capital is just as important, but in a non-institutionalised manner. That is why we could not find a word for guanxi."*

That is, while face (and social capital) may be less formal and less institutionalised than what it is the case in China, it is still important for the social capital discussion. Doing the

right things in Northern Laos will lead to face and a good reputation (something that will generate goodwill and social capital). R1 (personal communication, February 21-28, 2014) elaborated:

*"...do not claim the Schwanfuegel culture fits into the context. Try to pay attention to how the Chinese hand over a business card, more formalised than the Lao. It is the same thing."*

In the previous two case studies a similar discussion took place about the lack of a common word for Lao social capital. Here it was documented that Lao traditionally have used little resources refining and formalising concepts. R1 (personal communication, February 21-28, 2014) elaborated:

*"I know that in China one would inquire "if they can ask about people's good family name" when they politely ask about someone's name. I think "names" are worshiped as a concept in China in the same way as is guanxi, while the Lao have never formalised the concepts in the same fashion."*

In summary, the investigation into the concept of face in Northern Laos has revealed that face can be preserved through politeness, consideration of other people's feelings, and indirectness. It has also revealed that face has another side that relates to the reputation, goodwill, and public image of a person. This latter part of face can be strengthened and used to build social capital.

When asked, it proved difficult for the respondents to pinpoint the exact mechanisms for accruing face in the form of goodwill and reputation as it relates to everything a person does. Nevertheless, extensive interviews and data interpretations revealed a number of social obligations that can strengthen face. The social obligations that can increase face in the form of goodwill will now be discussed. During the following discussion the reader is urged to keep in mind that face and social capital are closely interwoven and that the following points relates to social capital as much as it does to face.

**7.2.4.1 Trust**

In the previous case studies a general lack of trust (outside of the social capital networks) was revealed. This finding that was paralleled in the third case study. For example, during a stay at a hotel in Luang Prabang in October 2014, the researcher was urged not to leave a rented scooter outside (as it would likely disappear). In business, people in Northern Laos were found to develop strong social capital networks to compensate for this lack of general community trust. During interviews with R25 the matter of trust was raised (R25, personal communication, April 20, 2013):

*"If you do not know them, you cannot trust them. It is not until you really know them that you can."*

Based on the above statement, it is clear that it takes time to develop social capital to the extent where one will be able to fully trust business partners. When R26 (personal communication, February 5-6, 2014) was asked about trust in the Lao business community, he responded:

*"There's a bit of mistrust as well."*

In the research so far, numerous examples has been encountered of foreigners who make investments in partnerships with locals who lacks trustworthiness and who do not have the needed business capabilities/connections. When some of these examples were discussed with R25 (personal communication, April 20, 2013), his response echoed those of the previous case studies:

*"That happens a lot here. It is not unusual."*

That is, all respondents in the third round of research confirmed the findings from the previous case studies; that the general level of trust within Lao society seems to be relatively low. Of course, one way to build a good reputation and goodwill, or face, is to display trustworthiness and to conduct business in a reputable manner (R1, personal communication, October 2-9, 2014; R25, personal communication, January 22, 2014; R26, personal communication, October 3, 2014).

### 7.2.4.2 Exchange of favours

In the previous case studies it became clear that the practice of favour exchanges forms part of face and social capital in Northern Laos. Face in the form of goodwill relates to everything one does – and the provision of favours will project an image of a person being reliable and helpful. This was confirmed by R25 (personal communication, April 20, 2013), who explained that his wife always assists when people in their community are in need of help:

> *"For my wife, if there is a death, or if it is something in our close community, she will always go and help with cooking, with food preparation, so she is always there for that."*

The importance of providing and returning favours was also confirmed by the extant literature where Boase (2003) argues that face in Laos is accrued when in-debtness is honoured. It was also confirmed by the Thai literature, where Ukosakul (2005) argues the recognition of mutual obligations forms part of face. When R25 (personal communication, January 22, 2014) was asked whether helping other people would lead to face, he responded:

> *"I suppose it does. I never really thought about it, to be honest. Ehm....I suppose it does, if would affect both face and social standing."*

In the social capital discussion, providing favours and helping people can cement relationships. Furthermore, the strength of relationships developed through favour exchanges will be augmented by the fact that it is difficult to attach a specific value to favours provided. Wong et al. (2007) argues that opposite monetary debts in the West (that often have precise values in dollars and cents), the intangible nature of Eastern favours makes it almost impossible to fully repay favours. Due to the intangible nature of favour exchanges it is difficult to end the cycle of favour exchanges, since not repaying favours will result in the loss of face in the form of goodwill. All in all, the more one help other people, the more one will be viewed as a strong pillar of the community, and the more face and social capital will be accrued. R25 (personal communication, April 20, 2013) explained about the system:

*"They know we always help…and they know that if someone helps us, we will always help them. In a local community sense it could not work better. If we need help, someone is there straight away."*

The above statement is a good example of social capital, where the building up of social capital credits can later be cashed in when a need arises. The more face in the form of goodwill one has, the more likely it is that one's requests will be granted when a need arises. The practice of providing envelopes with money as gifts for ceremonies was firmly established in the previous case studies – and was found to build goodwill and to fulfil social obligations. This was reaffirmed by R25 (personal communication, April 20, 2013) who explained he and his wife give envelopes all the time for ceremonies.

R25 (personal communication, April 20, 2013) moved on to provide insights into favour exchanges and submissiveness when dealing with powerful actors. When dealing with powerful actors, one must acknowledge and show respect for their position, and thereby one will provide these people with face (through the acknowledgment of their position in the hierarchy). Through submissiveness an actor will also fulfil their social obligations (and thereby gain goodwill themselves). Again, this is something that will transform into social capital credits – and the powerful actor will be more inclined to assist when a need arises. R1 (personal communication, April 14-28, 2013) explained about submissiveness:

*"Show respect. If you talk with officials you will not sit with your legs crossed or sag in the chair. If it is a higher official you will thank them for the time."*

Another part of favour exchanges relates to the exchange of material goods. The earlier finding, that material gift exchanges is of modest importance in Northern Laos, was reaffirmed during the third case study. Here observations conducted (in April 2013 and October 2014) at the premises of R25 and R26 found no artefacts which suggested gift exchanges. When R26 was asked about the observation that no gifts seemed to be on display in Laos, and that no gift exchanges had been observed (outside of ceremonies), R26 (personal communication, February 5-6, 2014) responded:

*"Yes that is true. I mean, I lived in Hong Kong for seven years, so I remember that was very much an issue there, giving presents, but here, no."*

After a brief reflection on the topic of gift giving, R26 elaborated that some material gift exchanges can be seen in Laos – and he has observed a rising trend of both materialism and gift giving (something that R26 pointed out is likely to accelerate with economic growth). This was confirmed by R25 (personal communication, April 20, 2013) who explained that monetary favours do matter:

*"Connections and the money together. Even when you have made the connections, it is going to cost you a lot less, but you still have to give them an opportunity. It is expected, it is part of the culture."*

During the interview, it became clear that the process of providing and receiving favours forms an important part of Lao social capital. R25 explained that when he receives favours he makes sure the providers are well compensated. This practice was also confirmed by R1. When asked if officials would expect something in return for helping, R1 (personal communication, April 14-28, 2013) explained:

*"Corruption is illegal, but it depends if officials have acted sensible before they received something. If they have done something helpful, then it may not harm them to receive something in return, as it would if they were just standing in the way as a mean to receive…There are some give and take for the ones who do sensible things. If someone could talk Australia into building a road, then it would be looked upon with mild eyes if it was your uncle's company who build that road."*

That is, the finding from earlier case studies, that among the small to medium business people are very conscientious about corruption, is still valid. This clearly differs from the situation in China where material gains were found to be at the core of Chinese social capital; to the extent where relationships cannot be sustained without accompanying gifts and benefits (Grainger, 2006; Lytras et al., 2005; Wong et al., 2007; Yeung & Tung, 1996).

### 7.2.4.3 Continuous interactions/ceremonies

It was previously established that continuous interactions surfaced as a critical factor for social capital in Northern Laos. Successful business operations require good networks, and material gains are only part of the reason for relationships in Northern Laos. Another

important function is the relationships themselves – something the locals seem to relish. This was confirmed by R26 (personal communication, February 5-6, 2014) who explained about the benefits for face of being socially engaged:

*"I think it certainly helps, your face is seen and you are seen to be doing things in their local culture and, yeah, absolutely."*

So far it has been established that there are several ways in which face can be accumulated (and that social capital can be built). One of these relates to continuous social interactions. All respondents identified social interactions as being an important part of Lao culture, as well as an avenue to develop relations and to accrue face. Even so, it became clear during interviews with R25 (personal communication, April 20, 2013) that he and his wife sought to avoid the many ceremonies that takes place in Northern Laos. This being so, as R25 and his wife are non-drinkers, and because most ceremonies involve considerable alcohol consumption. R25 acknowledges that being non-drinkers make them look a bit strange, but explains they can get away with it because they pursue other avenues for building face and social capital. R25 (personal communication, April 20, 2013) explained:

*"In the end, I guess that, they expect you to conform to what their behaviour is, but if you do not want to drink you are a little strange."*

Thinking back at the author's experiences during the *Songkran* (Lao New-Year) festival a few years earlier, the information that R25 is a non-drinker left the researcher somewhat intrigued. During *Songkran* it seemed impossible, even for an outsider, not to drink without having to engage in constant rejections (something that would have negative implications for face in the form of goodwill). When enquired how R25 could avoid drinking during the *Songkran* celebrations, without offending hosts, R25 explained that he and his wife escape to Canada during this time. R25 (personal communication, April 20, 2013) acknowledged that he and his wife would be missing out on networking opportunities:

*"My immediate neighbour is high up in the finance department and he has parties all the time, but neither of us are drinkers so we do not get involved because you basically have to drink."*

During the interview it became clear that being semi-retired – unexploited opportunities to accrue face and social capital were not a major concern for R25. This situation clearly differs from that of the other respondents, many of whom have developed significant tangible and intangible assets for their businesses in Laos. These respondents were found to have greater need for social capital to manage and further expand their assets. R25 (personal communication, April 20, 2013) elaborated that social interaction enables people to develop business relationships and assess the trustworthiness of potential partners.

### 7.2.4.4. Social contributions

In the previous case studies it was documented that doing good in the community was yet another avenue through which actors can meet their social obligations and build face in the form of goodwill and reputation. This was a factor that was resonated in the third round of research. When R26 was presented with examples of other respondent's social development activities, he explained that was quite a common pursuit among foreigners in Laos and that he contributes to a local orphanage. R26 (personal communication, October 3, 2014) elaborated on the topic of social contributions:

*"People come around for donations for this and that and that we generally give it; it is like another form of taxation, really."*

That social development is a common pursuit was echoed during interviews with R25. Here it emerged that he (personal communication, April 20, 2013) also contributes socially:

*"I do a similar thing. Mostly paying for people to have health checks who are in need of medical care in the more distant villages, and I take glasses, reading glasses, with me for anybody who needs them, who has problems seeing, in particular...a lot of (older) people produce arts and crafts, and who cannot see probably, so reading glasses are very cheap, I get them for about $2 each and they can make a huge difference."*

The nature of R25's tourism business takes him to remote areas where he meets villagers who would have little access to medical services (and where spectacles would be difficult to come by).

During the discussions, it became clear that R25 or R26 did not engage in social development activities specifically to build face. One of the reasons that R25 did not immediately recognise the benefits to his social standing of his development activities would most likely resemble the findings from case one. Here it was discovered that while R1's arrangement of school book donations made dealing with the authorities easier – the impact was lessened by the fact that most books were donated in remote and impoverished areas where the accumulation of social capital credits would bring little benefits. When asked if he through the provision of favours in Northern Laos would build an obligation on part of the receiver, R25 (personal communication, April 20, 2013) responded:

*"In some respects, yes. In others no. there has been a lot of people that my wife and I have helped, that after we helped them, they disappeared. Never heard from them again, which is pretty disappointing, actually. But with other people, they never forget and they are always there and they never forget. It can go either way."*

Previously under the section about trust, the importance of finding trustworthy business partners (i.e. people who care about face and social capital accumulation) was discussed. The above statement highlights this point. The people R25 describe who would receive help and then disappear are the kinds of people one should not seek to do business or develop social capital with. Whereas the people who never forget, they are the ones that can be trusted, and they are the people with whom successful social capital can be established (based on the obligatory and reciprocal principles). When asked if social contributions can build up goodwill, R26 (personal communication, February 5-6, 2014) responded:

*"Yes, ehm, sadly, it is not always trouble free…I think one has to be careful how one does it. As you can think, lots of foreigners coming in with lots of money, one has to be quite careful. I forgotten, but a few years ago, someone gave money for a water pump in a village…they gave them the money for it, and then six months later they came back and there was no sign of the pump. I think they did buy a pump and then they sold it."*

This concern, that social contributions may not necessarily lead to improved conditions for the locals (or goodwill, reputation, and social capital for the benefactor) was also expressed by R1. While R1 confirmed social contributions could build face in the form of

goodwill and reputation, he (personal communication, April 14-28, 2013) also emphasised:

*"...it can be a double edged sword if you are too generous. All of a sudden everyone comes to you for money. Here it is important with the right cultural understanding."*

During the third case study it became clear that respondents engaged in social development because they wanted to contribute to the community in which they settled. An added benefit, which respondents only discovered later, would be that being socially responsible can have benefits for their face in the form of goodwill (which again augments their social capital).

### 7.2.4.5. Materialism and appearance

Another factor that was found to build social standing, reputation and goodwill (or face) relates to maintaining a facade of wealth and perfection. R26 (personal communication, October 3, 2014) explained about appearance in the form of clothing and material possessions:

*"Appearance is important. That you are looking smart; that you are looking well groomed. That is quite important. How people perceive you… when you go to a wedding or a Baci it is important you dress correctly. If you don't it is definitely some minus points against you."*

R1 (personal communication, October 2-9, 2014) elaborated that, opposite the situation in China, a business suit is not needed in Laos. However, a top with a collar (e.g. a polo shirt) and combined with coloured trousers would be desirable for business.

During the four fieldwork expeditions conducted in Laos up to this point – a significant increase in materialism has been observed. Luxury cars now roam the streets and items that display wealth and perfection can be observed. During the first three fieldwork expeditions Beerlao seemed to have close to a monopoly on the Lao beer market – but during the fourth research trip, conducted in October 2014, the more prestigious Heineken was widely distributed in the urban centres. Another observation was made, when R1 purchased an electric scooter for his business (which is much cheaper to run than the more

prestigious petrol powered versions). As it turned out, staff neglected to use this new acquisition as it lacked prestige (they would rather use their own petrol powered scooters for business purposes).

When R25 (personal communication, April 20, 2013) was asked about the rise of materialism, he confirmed material wealth would contribute to how a person would be viewed in the community. When R1 (personal communication, April 14-28, 2013) was asked if a link exist between materialism and face, he responded:

*"Big time! Now you can borrow money for cars, so there are many who end up in debt acquiring cars."*

R26 explained that materialism is an emerging trend; that the sprouts of materialism have only taken root in the last fifteen years. R26 (personal communication, February 5-6, 2014) elaborated:

*"I think that the bit about being materialistic is restricted to the urban centres. I think if you went out in the deep countryside you would find it much the same as thirty years ago in that respect."*

That is, while Laos is still a Less Developed Country, emerging materialism has been observed in urban centres. A public image of refined appearance, wealth, and perfection has been found to contribute to a good reputation or face. In spite of this, it did not appear that the foreigners living in Northern Laos were too concerned about material goods. If anything, they seemed to cherish the more traditional Lao modesty.

A number of social obligations that can lead to face in the form of goodwill in Northern Laos have now been identified. They include being reliable and trustworthy, exchange of favours (and reciprocity when these are received), attending and hosting ceremonies (ideally with powerful actors), engagement in other social interactions, being polite and focus on harmony, and to smaller degree materialism and appearance. All elements that, when done correctly, can provide goodwill by augmenting the social character of a person. However, this is by no means an all-inclusive list of factors that can lead to face in the form of goodwill. Rather it is the factors mentioned most often by the respondents

involved in the research. Face in the form of reputation and goodwill relates to everything a person does and could for that reason include many things.


## 7.2.5 Local definition and concept

In the following a discussion will be provided into the search for the best Lao name for social capital, reasons why a common word for social capital in the everyday language has not been found, as well as an insight into the concept of Lao social capital in light of the findings from the third round of research. The local definition and concept of social capital was discussed 21 times during the third case study. Selected comments can be viewed in Table 7.5.


**Table 7.5 Selected comments - definition and concept**

| Total References: | | Selected Comments: |
|---|---|---|
| 21 | R25 | *"You are completely lost without connections."* |
| | R25 | *"...In this country everything, no matter what you look at, if you haven't got the connections it won't happen."* |
| | R25 | *"I know every Westerner living here, who have tried to do anything, ever succeeded with having the right connections."* |
| | R1 | *"It is an important point, actually, whenever something is in a grey area, then connections matter a lot."* |
| | R26 | *"It (social capital) certainly is necessary..."* |
| | R25 | *"If you do not find the right person, it is never going to happen."* |


### 7.2.5.1 Name

While many Asian languages have everyday words for social capital, it was during the first two rounds of research concluded that the Lao language does not have a conventional word for the concept. Even so, the investigation continued throughout the third round of research, but no new leads were identified. R25 (personal communication, April 20, 2013) could not think of a Lao word that could either be used to translate the Chinese concept of *guanxi* or that could be used to describe social capital. This was echoed by R26 (personal

communication, February 5-6, 2014) who lived in Hong Kong and who is familiar with *guanxi*:

"I don't honestly know, actually. Ehm…I don't know."

This response parallels the findings from earlier case studies. While all respondents acknowledge the importance of social capital, no one could think of a local word for the concept. As no new leads could be found for a common word for Lao social capital – the conclusion that was reached during the previous two rounds of research will not be altered. The most suitable Lao word for social capital remains *teun tang sangkhom* (which is a direct translation of social capital into Lao).

### 7.2.5.2 Less philosophers

In the previous case studies the reasons behind the lack of a conventional word for Lao social capital was investigated. During this investigation it was revealed that Laos historically has had fewer intellectuals who have refined concepts than many of its Confucian counterparts. That Laos' Confucian neighbours traditionally are the ones with advanced languages – cultures where philosophers and intellectuals have spent time thinking and writing about social matters. Both R25 (personal communication, January 22, 2014) and R26 (personal communication, February 5-6, 2014) confirmed Laos for many years have been a farming based society with a limited intellectual class that would have developed sociological concepts. When R25 was asked, if a historical lack of philosophers and intellectual elite could be a reasons why an common word for Lao social capital could not be found in the Lao language, R25 (personal communication, January 22, 2014) responded:

"I am sure, yes, definitely."

R25 (personal communication, January 22, 2014) moved on to provide a new insight into the reasons behind the lack of philosophers and thinkers. He explained:

"All the philosophers and artists were taken by the Siam nation. They lost all their intellect and then, of course, after the (civil) war the new ones that developed over the years, they ran away with it as well."

The research up to this point has established that Laos have had limited intellectuals; something that partly could be explained through cultural factors, migration of the intellectual class, economic development, and general resources in society. However, the suggestion that the Siam nation purged the Lao intellect was a notion the researcher had not come across before. It was, however, confirmed by R1 (personal communication, October 2-9, 2014) who referred to the 'intellectual purification' that took place under Siam control.

When this was investigated in the literature, it became clear that the author may have overlooked this aspect of Lao history because limited literature on the Siamese suzerainty exists. It can also be explained by the fact that accounts in the historical literature varies depending on the Thai or Lao perspective, and because many of the Lao writers and historians were disposed of by the Siamese (Stuart-Fox, 1997). For that reason a new historical investigation was conducted into the region that was to become Laos. Here it became clear that during the period 1776-1777 Siamese forces submitted three Lao kingdoms under Siamese suzerainty (Stuart-Fox, 1997). Subsequently, and to quell resistance, hundreds of Lao families was forcibly resettled in Northern Thailand. In spite of the resettlement policy, Lao resistance to Siamese hegemony remained; a dream lingered of uniting all Lao independently from the Siamese. This dream came to a boil in 1826, under the Leadership of king Anuvong, when four Lao armies arose against the Siamese. This rebellion was suppressed, and successively the Siamese sought to erase any remaining shadows of the independence movement. During this process another forced resettlement process took place of the Lao leadership and intellect. Siamese control of the region lasted until the French took control of Laos in 1893 (Stuart-Fox, 1997). That is, R25's assessment, that the period of Siamese control (1776-1893) partly could explain why Laos historically have had less thinkers, who would have conceptualised sociological practices, has been confirmed by the literature.

Another possible reason, as to why the Lao language does not have a conventional word for social capital, was identified by R25. This reason relates to the period after the communist revolution, when the Pathet Lao formed government and took power in the mid-1970s (R25, personal communication, January 22, 2014):

*"Well, do not forget 2/3 of the Lao language was burned or thrown away by the Pathet Lao when they came into power. The official Lao language has something like 4000 words whereas today it got less than a third of that. Most of the words were thrown away, were made unused, so there could be a word in the old language. They took the Lao dictionary and they went through and crossed all the ones out they thought were either royalist or, you know, in some way against the thinking of the Pathet Lao and they just deleted them. These words are no longer part of the Lao language. You will not use them."*

When this insight about the Lao language was investigated in the literature, it was confirmed by Rehbein (2007) who argued that one of the first measures of the social leadership was language reform. When enquired if these language purification policies were reflected in the common language, R25 (personal communication, January 22, 2014) responded:

*"It has worked, and I think a lot of the reasons it worked is because a lot of the original language was for the high sop Lao (the wealthy intellect), not for the peasant farmers. And all of the highest sop fled the country and so they were only left with the farmers who wouldn't have known that language."*

That large-scale migration took place after the communist revolution where about ten percent of the population (including the aristocracy and educated urbanists) left the country is confirmed by the extant literature (Lintner, 2008; Rehbein, 2007; Rosser, 2009). During interviews with R26, this aspect of the Lao language was discussed. When R26 was asked if he could confirm if words associated with the Royal Lao Government was obliterated after the communist revolution, he (personal communication, February 5-6, 2014) responded:

*"Yes, that is right; that is true, that."*

He also provided an interesting anecdote into this aspect of the evolution of the Lao language (R26, personal communication, February 5-6, 2014):

*"Recently I was involved with getting an audio tour put into the museum...the audio tour was made in English first and a lot of work went into it, and it is about an hour*

*long and takes you around the whole museum and identifies spices and talks about the history and culture and everything else. And then this recording was put into different languages, for foreign tourists, and then also the Lao language, of course, translated. And, the person who did the translation was a Lao person living in Sydney which is where the production company for this audio tour is. So they used a Lao person in Sydney. That Lao person had left Laos before the revolution…when it came back to the Lao authorities to look at here, then they said oh-no-no this is no good. This is written by someone pre revolution. It won't do at all."*

That is, another contributing factor, as to why Laos does not have an everyday word for social capital when many other Asian languages does, could be the language purification that took place in the mid-1970s after the communist revolution. This is also confirmed by Evans (1998) who argues that the LPRP sought to reconstruct many areas of society in order to create a stronger foundation for new ideologies – and by Stuart-Fox (1997) who argues the LPRP undertook a process of general purification after they took control. When R1 was asked if language purification could be a reason why no conventional word for Lao social capital could be found – he confirmed this was a possibility and that he was aware of some level of cleansing of the written language (R1, personal communication, April 14-28, 2013).

All in all, it has been firmly established that no conventional word for Lao social capital exists. During the third case study, additional reasons for the lack of a conventional word were identified. They include Siam cleansing of the ruling elite, large scale migration after the communist revolution, and purification of the Lao language after the Pathet Lao took control in 1975.

### 7.2.5.3 Social capital in Northern Laos

Social capital refers to collaboration between people with associations, shared interests, and common purpose. These collaborations are guided by social norms, solidarity, and reciprocity – and they have collective strength which enables members to access a range of resources that are available in the community (Woolcock, 2001). During the research it became clear that the importance of social capital in Northern Laos should not be underestimated. This has been emphasised by all respondents involved in the third round

of research. R25 (personal communication, April 20, 2013) emphasised the importance of using social capital to reach desired goals:

*"It is not like in Canada or Australia where you fill out the form and pay the fee and then wait for the approval. It is not like that here. It does not work that way…If you can spend the time to develop your connections, which is actually developing friendships, it is going to be a much more pleasant experience."*

R25 (personal communication, April 20, 2013) elaborated:

*"…in this country everything, no matter what you look at, if you haven't got the connections it will not happen."*

When R26 (personal communication, February 5-6, 2014) was asked if he found social capital to be a useful resource in Northern Laos, he confirmed this to be the case. R26 elaborated that social capital can be developed with Lao and expatriates alike; foreigners who have done the same things and encountered the same problems.

It the previous case studies, it was documented that the distinct version of social capital that exist in Northern Laos has been moulded by a number of factors that characterises Lao history. Foreign occupation, civil war, mass migration, radical political and economic changes have produced a great deal of uncertainty – all of which was found to have been counterbalanced by strong reliable social capital networks. This was confirmed by R25 (personal communication, April 20, 2013):

*"If you look at their history, they had one disaster after another, for such an incredible long time that the family union and secondary the social connections have been their life source. Without it they could not survive. I think because of those traditions it has made it (social capital) so strong."*

R25 (personal communication, April 20, 2013) explained that with the introduction of a more modern society, where young people are moving to the cities for work, some of the bonding social capital structures may change (although R25 emphasised this would be a slow process). Observations also seem to indicate that whole families may relocate to areas of economic opportunities. For example, in the case of R1 who is locally married to

a woman from the southern part of Laos, much of her family has relocated in close proximity of R1's resort in Northern Laos.

At the end of the first interview, R25 emphasised the importance social capital in Northern Laos through the provision of an example relating to a friend who sought to rely on standard procedures and economic capital to operate a NGO (R25, personal communication, April 20, 2013):

*"On several occasions, he has done everything wrong. Everything we have been talking about, he has done the opposite and it has been a total disaster. It has not worked."*

## 7.3 Reflection and revised conceptual framework

The third round of research has now almost reached a conclusion. The plan, the data collection, and the analysis have been completed. The remaining elements, reflection and refinement of the conceptual framework, will now be undertaken. This cyclical process is highlighted in Figure 7.1.

**Figure 7.1 Interpretative structured–case model (adapted from Caroll and Swatman (2000). p. 240)**
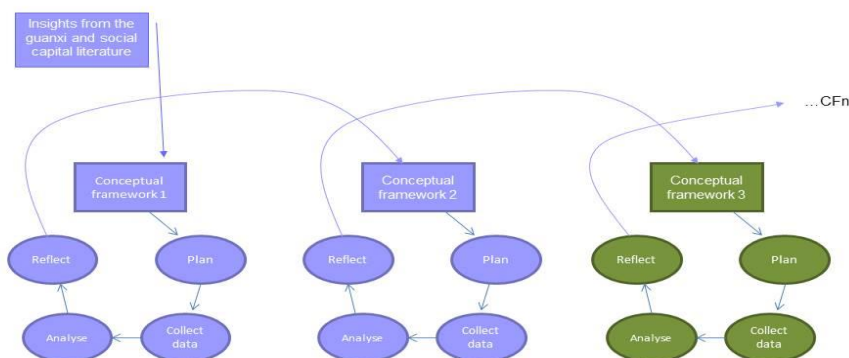
Reflection for the third round of research mirrors that of the previous case studies, and took the form of feedback from a *guanxi* expert from the Edith Cowan University, as well as ongoing feedback from respondents in Northern Laos. Reflection also included a review of the literature, something that allowed for a deeper exploration of the degree to which existing theories may explain findings from Northern Laos (Caroll & Swatman, 2000). During the third case study it became apparent that the data collected largely confirmed earlier findings; and since little new knowledge emerged, the reflection section will be fairly short for the third case study. Only a few minor insights were made that will cause adjustments to the conceptual framework. These will be discussed below.

A new insight that emerged from the third case study was that the importance of linking social capital correlates with legislative uncertainty. When businesses operate in grey areas of legislation, linking social capital was found to be of greater importance when approvals and permissions are sought. By the same token, when businesses operate under clear legislation, where standard bureaucratic processes can be followed, linking social capital was fund to be of lesser importance. Of course, throughout the literature review, and the three case studies, many grey areas have been identified in Lao legislation (Fry, 2007; Gunawardana & Sisombat, 2008; Usa, 2007). This suggests linking social capital would be needed in many instances – something that was confirmed by all respondents who agreed linking social capital has significant benefits.

Another insight that was reinforced through the third case study relates to the importance of showing respect and submissiveness for powerful patrons. This aspect of social capital was found to have implications for both face and linking social capital. Face represents a person's public image, and respecting the importance of public figures, can produce goodwill which can translate into benefits for social capital. Thus, when dealing with people in general, and higher officials in particular, it is advisable to show respect for their position and reputation. This is confirmed by the literature from Thailand, where Ukosakul (2005) argues face is identical to ego – and where the basic rule of Thai interaction is preservation of one another's ego. According to Intachakra (2012) face relates to one's sense of place in relation to others – and here it is important that status-consciousness be observed. With this in mind, actors in Laos are well advised to show respect for the position officials holds (and the time officials grants).

When engaging with important connections, another insight emerged from the third case study that will cause a slight modification to the conceptual framework. During the first and second case study – the significance of projecting an image of wealth and perfection was already established. During the third case study it became clear that the image one projects also will be influenced by the clothes that are worn. While no observations were made of people in Western-styled business suits, it became clear that people are expected to dress neatly in a top with a collar (e.g. a polo shirt) and nice-looking pants (not jeans or trekking gear). This is an error many Westerners initially make – as the climate and dirty frontier-terrain of Northern Laos prompts the use of exploration styled clothing.

That is, except for a few minor adjustments to existing themes, the findings from the third round of research were found to support the conceptual framework developed through the second round of research. For that reason it is believed a point of data saturation has been reached and the adding of new cases would provide negligible value. The findings from the first case study were largely confirmed through the second – and the findings from the third case were almost identical to those of the second case. For that reason the research cycles will draw to an end and the formation of a theory of Lao social capital will be initiated in the next chapter. The conclusion that sufficient case studies have been undertaken is supported by Caroll and Swatman (2000) who argues the adding of cases should wind up when many observations have been seen before – and when the benefits to knowledge of additional cases are slight. This point has clearly been reached for the study into the form and use of social capital in Northern Laos. Aggregated findings from the three case studies are illustrated in Table 7.6.

**Table 7.6 Revised conceptual framework – social capital components**

| Social capital components | Laos |
|---|---|
| Local Definition | Teun tang sangkhom is a personal relationship based around trust, reciprocity, and obligatory principles. Successful business operations require good networks (and good relations with regular social interactions are at the core of these). In business teun tang sangkhom can be used as an investment in social relations to help facilitate returns in the marketplace. |
| Bonding | Teun tang sangkhom operates in tight-knit communities where members bond through group identification. Family members are normally at the core of the Lao bonding communities – with other people (with whom actors have lesser bonds) on the fringe. |
| Bridging | The gap between insiders and outsiders can relatively easily be bridged. A number of paths can be pursued for bridging to take place (and to turn the initial weak social capital among actors |

| | |
|---|---|
| | into a strong bond). They include a focus on accruing face, a focus on relationships (as opposed to business), social interactions, repeat business, modesty, taking a genuine interest in the Lao, trustworthy operations, humour, and fulfilment of obligatory and reciprocal principles (including soft gift exchanges). Intermediates can also be used to bridge the initial gap between insiders and outsiders. |
| Linking | Due to a relatively clear separation between government and small to medium businesses, linking social capital is not as important as bonding and bridging social capital among small businesses. The research revealed that linking social capital is more dominant in areas traditionally controlled by the government, among larger and more influential businesses, and among business that operates in grey areas of legislation. When one seeks to establish linking social capital, it can largely be fashioned using the same methods as is used to bridge the gap between insiders and outsiders. One important difference relates to the importance of showing respect and submissiveness for authority. |
| Face and moral obligations | Na refers to face and forms part of teun tang sangkhom. In Northern Laos it is important to save face through politeness, consideration of other people's feelings, and indirectness. Face also relates the reputation and goodwill a person holds. This latter part of face is what really matters for the social capital discussion; it is in the form of goodwill that face can be used to secure social capital.<br><br>In order to secure goodwill, one must understand the social norms and behaviours which reinforce and strengthen the reputation of a person. Social obligations involves the provision of favours to one's social capital network (and ideally also the wider community), return favours when these are received, show respect when dealing with superiors, attending and hosting ceremonies (ideally with powerful actors), being a sociable person, taking a genuine interest in the locals, being reliable and trustworthy, and to a smaller extent display of materialism. |

## 7.4 Summary – case three

The third case study has now come to a conclusion. Social capital has, for the third time, been found to be an important factor in Northern Laos. While no major new discoveries were made during the latest round of research, the additional data collected allowed the conceptual framework to be further refined and the conclusions to be further cemented. The research cycles will now draw to a close, and the remainder of this project will focus on a literature-based scrutiny of the aggregated findings and conclusions.

# Chapter 8 - Findings and Discussion

Extensive research has now been conducted over three case studies in Northern Laos. This chapter will discuss the accumulated findings of the research into the form and use of social capital in Northern Laos.

Initially the purpose and importance of this study will be revisited, a discussion of the most important discoveries will be provided, and in line with the structured-case methodology, the findings on social capital in Northern Laos will be scrutinised through the use of existing theory from a wide spectra of literature. This literature scrutiny will include theory from many disciplines in order to investigate whether the practices observed in Northern Laos are replicated in other contexts or situations. Agreement between the discoveries from Northern Laos with the enfolding literature will consolidate the findings and lead to a more powerful theory (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012).

## 8.1 Structured case and the enfolding literature

The structured-case methodology developed by Caroll and Swatman (2000), and refined by Koeglreiter et al. (2012), provided the foundation for the research into social capital in Northern Laos. Figure 8.1 illustrates the series of research cycles that were undertaken as part of the research methodology and the series of conceptual frameworks that emerged from the study. At any given time, the most recent conceptual framework represented the most recent version of the theory built to date (Caroll & Swatman, 2000).

**Figure 8.1 Structured-case research cycle (adapted from Koeglreiter, Smith, and Torlina, 2012, p. 176).**
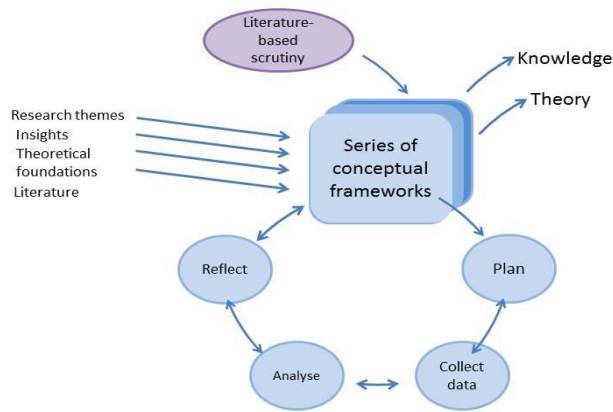


The original conceptual framework (as indicated by the light square box) was developed based on the research themes, existing insights, theory and literature (in particular social capital and *guanxi*). This conceptual framework formed the basis for the first research cycle, or case study, which also encompassed a plan for the research, data collection, analysis and reflection. A refined conceptual framework was developed at the end of the first research cycle (and this enhanced framework formed the basis for the second case study). This cyclical approach of conducting case studies, based on revised conceptual frameworks, continued until a point of data saturation was ultimately reached at the end of the third case study. The final element of the structured-case methodology is the literature based scrutiny of the latest findings – and in the following the original research questions will be revisited and the main conclusions from the study will be outlined and discussed in light of a broad spectra of enfolding literature (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012). This final part of the structured-case methodology (literature based scrutiny of the findings) is illustrated in purple in Figure 8.1.

The purpose of this study was to develop a theory of the form and use of social capital among FDIs in the Northern Lao business environment. In particular, the field research used social capital theory as a benchmark to address the following question:

- What is the form and use of social capital among foreign direct investors in their interactions with locals in Northern Laos?

In addition to this primary research question – the following secondary questions were addressed:

1. To what extend do existing theories explain the use of social capital among FDIs in their interactions with locals in the Northern Lao business environment?

2. What are the similarities and differences between existing social capital theory with that used among FDIs in Northern Laos?

3. What are key underlying factors that have helped shape the local version of social capital in Northern Laos?

During the research it became clear that the findings relating to the main question together with the first two secondary questions were closely interwoven. For that reason, the following discussion (outlining the main conclusions of the study) will be structured on two main parts:

- Part one relates to the main research question and the first two secondary questions.

- Part two relates to the third secondary question/the key underlying factors that helped shape the local version of social capital in Northern Laos. The accumulated findings relating to each of these two parts will now be discussed in light of the enfolding literature.

## 8.2 Findings and discussion - part one

The first part of the research findings relates to the form and use of social capital among FDIs in their interactions with locals in Northern Laos, the extent to which existing theories explain the use of social capital, as well as the similarities and differences between existing social capital theory with that used in Northern Laos. The findings to these research questions are summarised in Table 8.1.

**Table 8.1 Summarised findings & progression of the conceptual framework**

| Social Capital Components | Original conceptual framework (based on social capital theory with a focus on China) | Final conceptual framework from Northern Laos |
|---|---|---|
| Local Definition | Guanxi is a relationship with exchanges of favours. In business guanxi can be viewed as an investment in social relations to help facilitate returns in the marketplace. | Teun tang sangkhom is a personal relationship based around trust, reciprocity, and obligatory principles. Successful business operations require good networks (and good relations with regular social interactions are at the core of these). In business *teun tang sangkhom* can be used as an investment in social relations to help facilitate returns in the marketplace. |
| Bonding | Guanxi operates in close-nit communities where members bond through group identification. Close family members are normally at the core of these communities, with distant relatives, class-mates, and other people at the fringe. | Teun tang sangkhom operates in tight-knit communities where members bond through group identification. Family members are normally at the core of the Lao bonding communities - with other people (with whom actors have lesser bonds) on the fringe. |
| Bridging | The gap between insiders and outsiders in the guanxi networks can be bridged through a guanxi base (some common ground) and through altercasting (e.g. intermediates). | The gap between insiders and outsiders can relatively easily be bridged. A number of paths can be pursued for bridging to take place (and to turn the initial weak social capital among actors into a strong bond). They include a focus on accruing face, a focus on relationships (as opposed to business), social interactions, repeat business, modesty, taking a genuine interest in the Lao, trustworthy operations, humour, and fulfilment of obligatory and reciprocal principles (including soft gift exchanges). Intermediates can also be used to bridge the initial gap between insiders and outsiders. |
| Linking | Within the Confucian belief system, powerful actors in the social hierarchy are supposed to look after people who are disadvantaged. This cultural trait enables actors at different levels of the social hierarchy to be linked and exchange favours of unequal value. | Due to a relatively clear separation between government and small to medium businesses, linking social capital is not as important as bonding and bridging social capital among small businesses. The research revealed that linking social capital is more dominant in areas traditionally controlled by the government, among larger and more influential businesses, and among business that operates in grey areas of legislation. When one seeks to establish linking social capital, it can largely be fashioned using the same methods as is used to bridge the gap between insiders and outsiders. One important difference relates to the importance of showing respect for authority. |
| Face and social obligations | *Mianzi* refers to face and is an important part of guanxi. M*ianzi* comprise of the social status and the moral character of a person. *Mianzi* will be lost if *renqing* obligations are not met.<br><br>*Renqing* supports guanxi and refers to the moral obligation to maintain a guanxi relationship. One must assist when called upon, return favours, and maintain harmony in the relationship. | Na refers to face and forms part of teun tang sangkhom. In Northern Laos it is important to save face through politeness, consideration of other people's feelings, and indirectness. Face also relates the reputation and goodwill a person holds. This latter part of face is what really matters for the social capital discussion; it is in the form of goodwill that face can be used to secure social capital.<br><br>In order to secure goodwill, one must understand the social norms and behaviours which reinforce and strengthen the reputation of a person. Social obligations involves the provision of favours to one's social capital network (and ideally also the wider community), return favours when these are received, show respect when dealing with superiors, attending and hosting ceremonies (ideally with powerful actors), being a sociable person, taking a genuine interest in the locals, being reliable and trustworthy, and to a smaller extent display of materialism. |

The original conceptual framework, which was based on existing social capital and *guanxi* theory, formed the basis for the first case study conducted in Northern Laos. In line with the structured-case methodology (Caroll & Swatman, 2000; Koeglreiter et al., 2012) a series of case studies were undertaken in Northern Laos – each of them culminating in a revised conceptual framework incorporating the latest findings. The original conceptual framework, which formed the hypothesis for the form and use of social capital in Northern Laos, can be viewed in the left part of Table 8.1. A summary of the ultimate findings from the research in Northern Laos can be viewed in the right part of Table 8.1. As can be seen in this table, the social capital that is used in Northern Laos roughly fits within the overall structures of existing social capital theory.

Hopfensitz and Miquel-Florensa (2014), Norris and Inglehart (2013), and The World Bank (2014c) argues social capital comprises of a combination of structures (e.g. bonding, bridging and linking) and social norms (e.g. trust, reciprocity and face). In the above table the structures of social capital are indicated by the dimensions of bonding, bridging and linking (Putnam, 2001a, 2005, 2009; Woolcock, 2001) – and a summary of the social norms that guide behaviours within these structures can be viewed in Table 8.1. Additionally, the research revealed face also forms an important part of the social norms that guides social capital in Northern Laos – and face has for that reason been illustrated in a separate section in the above Table 8.1. When comparing the findings from Northern Laos to mainstream social capital literature (Coleman, 1988; Putnam, 2005; Woolcock, 2001), most of which has a Western focus, it becomes apparent that face is a construct where clear differences in the norms guiding social capital exist. However, the findings from Northern Laos are similar to the more limited social capital literature that has a focus on Asian contexts. Here it becomes clear that the interrelation between face and social capital is not limited to Northern Laos (Bian & Zhang, 2014; Imrie, 2013; Verhezen, 2008, 2012). This is confirmed by Hwang (1987) and Lim (2003) who argue face is predominantly an Asian construct which is governed by norms which deviate from the rules and norms which can be found in the West.

The original hypothesis for this study was that social capital in Laos would resemble social capital in China. This assumption was based on the literature review that was undertaken in Chapter two and three. While many parallels during the research were

identified between social capital in China and Laos, significant differences were also discovered. The most important difference relates to the conceptualisation of the concept of social capital. While social capital is important in both cultures – the Chinese have formally institutionalised and defined the concept (e.g. with structures and words) whereas the Lao have not. Another important difference relates to the aggressiveness by which social capital is used to accrue material gains. Both material gains and strong personal relationships are important functions of social capital in both countries. However, the scale of importance seems to be tilted toward materials gains in China (Dunning & Kim, 2007; Lee & Dawes, 2005; Wong et al., 2007) whereas the fieldwork reveals the scale seems to be tilted toward good relations as an end in itself in Northern Laos. This assessment was confirmed through discussions with Thongyou (personal communication, September 14, 2013), the Director for the Center for Research on Plurality in the Mekong Region at the Khon Kaen University in Thailand. Furthermore, a *guanxi* expert from the Edith Cowan University, Grainger (personal communication, November 6, 2013) provided an explanation of this difference in the two neighbouring countries. Here it was clarified that material gains only became prominent in China with the growth of the economy. That 30 years ago, prior to the evolution of the Chinese market economy, the situation in China would have resembled that which was now found in Northern Laos (where material gains and possessions is less important). It is therefore plausible that with economic development, Northern Laos will follow the path of China, and that the importance of material gains as part of social relations will increase.

Some of the more significant differences between existing social capital theory, with that used in Northern Laos, have been outlined above. Additional differences, as well as the main findings of the three case-studies conducted in Northern Laos, will now be discussed in light of the latest conceptual framework and a broad range of literature (Caroll & Swatman, 2000; Eisenhardt, 1989; Koeglreiter et al., 2012). This literature-based scrutiny will consolidate the findings, and it will raise the theory to a more abstract level by establishing parallels between observations from Northern Laos with observations from other disciplines and contexts.

## 8.2.1 Local definition and concept

Social capital is a sociological concept that since the early 1990s has gained significant recognition in the literature (Bourdieu, 1986; Coleman, 1988; Ferragina, 2010; Labonne & Chase, 2011; Lin & Si, 2010; Putnam, 1995; Putnam, 2001a, 2001b, 2009; Woolcock, 2001; Xiao & Tsui, 2007). International institutions like the World Bank, the OECD, academics, national governments, and many businesses have embraced the concept as a tool for social and economic development (De Mello; Gu et al., 2008; Harper, 2002; Labonne & Chase, 2011; Lytras et al., 2005; Menyashev & Polishchuk, 2011; Pugno & Verme, 2012; The World Bank, 2014c). The following idiom illustrates the basic idea behind social capital:

*"I'll scratch your back, if you scratch mine."*

The saying goes this idiom emerged among sailors in the English Navy in the 17th century. Back then, severe punishments were in place for disobedience – and at times offenders would be tied to a mast where they would be flogged by a fellow sailor. Fortunately for the sailors subjected to this type of punishment, a well-functioning social capital system existed among the crew members whereby only soft lashes, or scratches, would be delivered. This favour would then be returned if, or when, the roles at a future time would be reversed. This social capital system operated within the structures of the crew members and it was guided by the social norms of reciprocity.

While this idiom explains, in simple terms, some of the more fundamental benefits of social capital – the main objective of this research was to identify the form and use of social capital among foreign direct investors in their interactions with locals in Northern Laos. During a series of case studies, it was firmly documented that social capital is an important factor in the Northern Lao business environment (for foreigners and locals alike). In spite of the importance, it was also documented that no common local word exists for the concept. During the first round of research *teun tang sangkhom* was identified as the most suitable word for Lao social capital; a conclusion that was further cemented during the following two research cycles. *Teun tang sangkhom* is a direct translation of social capital into Lao; something that is no different from what happens in many other languages e.g. Sozialkapital in German, capital social in Spanish, or social kapital in Danish (Schreiber et al., 2012; Svendsen & Svendsen, 2006; Van Oorschot &

Arts, 2005). *Teun tang sangkhom* represents a relationship based around structures (e.g. bonding, bridging and linking) and social norms (e.g. face preservation, trust, reciprocity, and obligatory principles). In business, *teun tang sangkhom* can be used as an investment in social relations that can help facilitate economic returns in the marketplace. This is confirmed by the extant literature, where Boase (2003) argues that relationships in Laos are drawn upon to get things done in all aspects of life (and where obligatory and reciprocal principles ensures these networks can be relied upon). The importance of building up informal social capital credits that can be cashed in when a need arises was confirmed through all three research cycles – and it parallels the situation across much of Asia (Hitt et al., 2002; Peng et al., 2008; Verhezen, 2012).

During the research a model illustrating the structure of a typical Lao social capital network was developed (Figure 8.2). In this particular network, strong bonding social capital exists among the key connections (which could be family); weaker bridging social capital exist with the connections on the fringe (which could be suppliers); and none or little exist with outsiders (as indicated by the smaller detached dots). A foreigner, upon initially setting up in Northern Laos, would be one of the detached dots. However, through the use of bridging social capital, and by adhering to social norms and obligations, it is possible for a foreigner to advance to a connection on the fringe and ultimately become a main connection (where strong trust and social capital exist). Avenues that can make this transition materialise will be discussed in detail later in this chapter.

**Figure 8.2 Social capital networks**
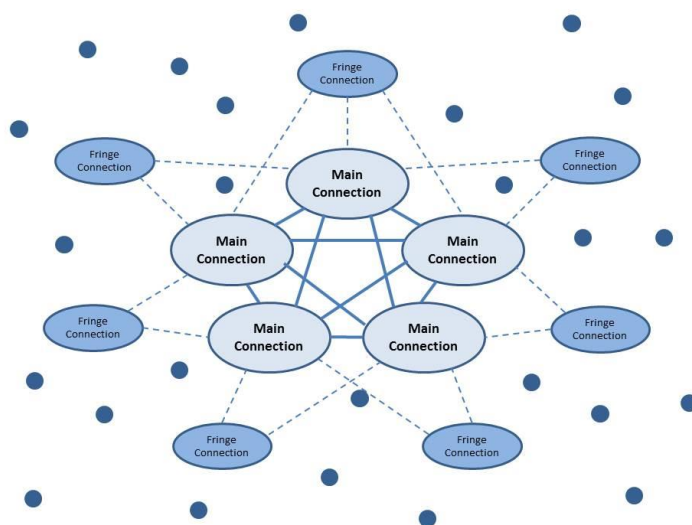
As previously explained, social capital is in the literature understood partly as a structural phenomenon (made up of social networks) and a cultural phenomenon made up of social norms (Hopfensitz & Miquel-Florensa, 2014; Norris & Inglehart, 2013; The World Bank, 2014c). This corresponds well with the findings from Northern Laos, where the structural phenomenon is illustrated in the networks of Figure 8.2 – and where social norms guide the interactions within the networks (as well as the process for outsiders to bridge the gap into the network). When discussing social capital, it is important to remember that Figure 8.2 only illustrates one small social capital network. There will be numerous similar networks, some large and some small, scattered across Laos like galaxies in the universe. The research revealed that while each of these clusters embodies one bonding social capital network – the different networks will often be interconnected through bridging and/or linking social capital.

When developed with reputable people, social capital provides a safety-net in Northern Laos. During times of abundance, actors can build up social capital credits through the provision of favours/through a concern for acquaintances. When credits have been built up, and in times of need, the social capital network can then be drawn upon for assistance.

In the following the findings from the research into social capital in Northern Laos will be discussed around the components of bonding, bridging and linking social capital. When reading through these sections it is important to be aware that the lines between the three dimensions of social capital are somewhat blurred. That is, actions that can assist in the development of bonding social capital can also assist in the development of bridging and linking social capital. The researcher has endeavoured to list the social capital themes under the headings they would have the most attachment to.

## 8.2.2 Bonding context

Bonding social capital represents social ties within groups of people in similar situations, with common interests, and with a shared social identity; it may include family, close friends and neighbours (Lin, 2008; Putnam, 2005; Turner, 2007; Uphoff et al., 2013; Woolcock, 2001; Woolcock & Narayan, 2000). During the research it was firmly established that bonding social capital forms an important part of social capital in

Northern Laos. Family members are typically found at the core of the Lao bonding communities, with other people (with whom a given actor has bonds) typically on the fringe. A need for trust and security was found to be a key reason for the strong bonding social capital in Northern Laos.

During the field research a pattern emerged of respondents continuously cultivating their social capital networks through social interactions. This finding is confirmed by the extant literature, where Boase (2003) argues that in Lao culture social affairs and work are woven together in a seamless pattern, that relationship are the currency of life in Laos, and that foreigners who seeks to limit their work to the office will fail in their endeavours. Basically, the research revealed that when a personal relationship develops alongside a business relationship, the more intertwined and firmly established bonding social capital becomes. Through an examination of the enfolding literature, it became clear that this emphasis on mixing business and friendship, resembles the situation in neighbouring countries of China and Thailand, where it has also been argued social capital ideally should evolve into a strong friendship to ensure durability (Chase et al., 2005; Lee & Dawes, 2005; Purchase & Phungphol, 2008; Wong et al., 2007; Yeung & Tung, 1996).

Bonding social capital was found during the research to be embedded into all aspects of Lao society. One of the explanations for the strong bonding social capital is the fact that families traditionally have been the fundamental support system in Northern Laos. The importance of bonding social capital in Lao society can be seen in the local retirement practices; where people are raised in the knowledge that they will take care of their parents when they grow old, knowing that their own children will look after them as well (R25, personal communication, January 22, 2014). Ferragina (2010) and Chase et al. (2005) views social capital as an intangible assets that is generated within social relationships; something that can be used to accomplish desired results by both groups and individuals (in this case a well-functioning retirement system). In Western countries things are fundamentally different; here people largely rely on monetary capital to finance their individual retirement. In the West retirement plans are arranged through public and private institutions (and security is provided through clear legal frameworks). This plainly differs to the situation in Laos, where retirement is based on social capital within kinship structures (and where security is provided through social norms). The Lao retirement arrangements provide a good example of the significance of social capital in Lao society.

As has been illustrated again and again throughout this research, social capital is a resource that is interwoven into all aspects of Lao society. Obviously, a foreigner cannot expect to move to Laos and be entitled to retirement under the Lao system (which is exclusive to holders of bonding social capital). Similarly, a foreigner cannot expect to move to Laos and succeed within the local business systems without first developing social capital (as many resources are also exclusive to holders of social capital). Social capital is a resource that is knitted into the fabric of Lao society which takes time to develop.

All in all, during the three case studies conducted, bonding social capital has been documented to be very important for all the key respondents who participated in the research. Foreigners interviewed operating successful small to medium sized businesses in Northern Laos have all developed strong local bonding networks. In the many stories that were told of unsuccessful foreign investors in Northern Laos − a pattern emerged of investors who failed to develop bonding social capital (or who formed bonds with people who lacked capabilities and trustworthiness). Furthermore, many of the successful respondents interviewed in Northern Laos were found to be locally married and these respondents were found to incorporate their spouse's family into their businesses. Successful respondents, who were not locally married, were found to substitute kinship with other bonding structures within their businesses.

## 8.2.3 Bridging context

Fortunately for outsiders who wish to establish themselves in Northern Laos − it is possible to gain access to the bonding communities (discussed above) through bridging social capital. Basically, bridging social capital enables outsiders to bridge the gap to people within social capital networks − and it allows people who are already part of established networks to connect with people in other networks (Putnam, 2005, 2009). While bridging social capital initially encompasses looser relationships (than those which can be found within the established bonding networks), they have the potential over time to develop into strong bonding social capital (Beugelsdijk & Smulders, 2003; Grafton, 2005; Putnam, 2005, 2009; Woolcock, 2001).

Bridging social capital was found to be of particular importance for foreign investors in Northern Laos. This being the case as they upon their arrival in the country would have negligible connections or social capital. The importance of bridging social capital is illustrated in Table 8.2 – which indicates the number of times a given type of social capital reference was recorded during the research in Northern Laos. Although these recordings should be treated with caution, due to the qualitative nature of the study, the numbers do provide a rough indication of the importance of different social capital themes that emerged during discussions with respondents in Northern Laos.

**Table 8.2 Number of social capital references**

| Number of social capital references | | | |
|---|---|---|---|
| | Bonding | Bridging | Linking |
| Case one | 70 | 67 | 16 |
| Case two | 28 | 30 | 11 |
| Case three | 11 | 25 | 10 |
| Total: | 109 | 122 | 37 |

Of course, it is important to note that the prominence of bridging social capital references can be explained by the fact that the majority of the interviews were conducted with foreigners, or outsiders, who would have been in need of significant bridging social capital when they first arrived in Laos. The numbers would have been tilted toward bonding social capital had the majority of respondents been Lao (who are born into strong bonding social capital networks).

The research documents that the Lao people enjoy company and meeting new people, and while this openness makes it fairly straightforward for foreigners to establish weak bridging social capital, it has also been documented that one must work hard to turn this initial bridging social capital into a strong bond. Dunning and Kim (2007) argue that the route for relationship (social capital) development in any country will be heavily influenced by the local culture and belief system; and during the research a number of avenues have been identified which can make the transition from an outsider to an insider take place in Northern Laos. Methods used among foreigners in Northern Laos to bridge

the gap (and to strengthen social capital) were a key focus of the research in Northern Laos. The most commonly cited methods include social interactions (ideally with powerful actors), patience and relationship building, repeated business, favour exchanges (and return of these when received), trustworthy operations, humour, intermediaries, as well as modesty and a genuine interest in Lao people and culture. All of which, when done correctly, generates social capital. A focus on accruing face, or *na*, in the form of goodwill will also progress the transition from outsider to insider (and will be discussed later in this chapter). Figure 8.3 illustrates the most commonly mentioned methods used among foreigners to bridge the gap from outsiders to insiders.

**Figure 8.3 Commonly cited routes to bridging social capital**
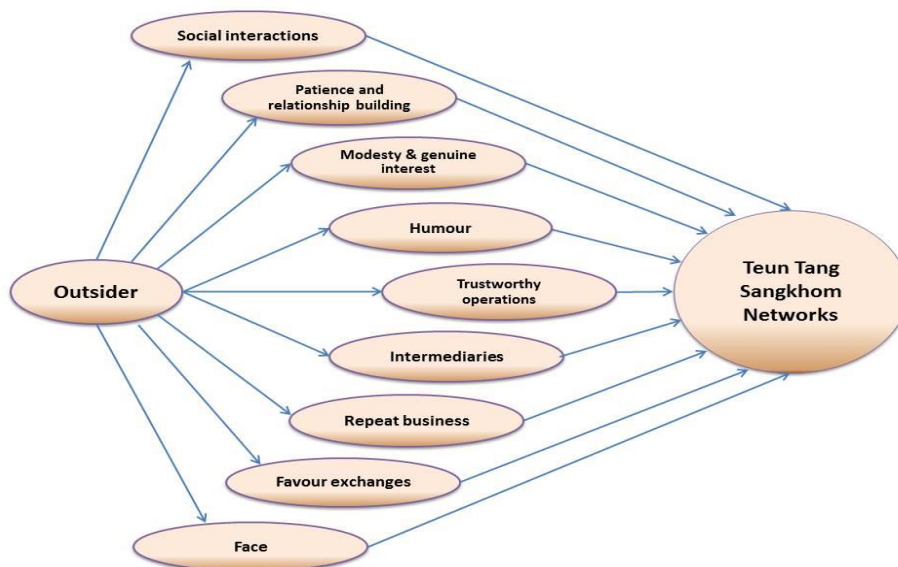


When seeking to establish bridging social capital, social interactions were found to be important; any social interaction, where relationships can be formed, can serve the purpose of getting to know the right people and establishing social capital (without being seen as too aggressive). Community gatherings (in particular ceremonies like weddings, *Bacis* and *Songkran*) were mentioned among respondents as avenues to establish social capital in Northern Laos. Sport (including badminton, soccer, petanque or golf) was also mentioned as potential paths to engage in social interactions and to establish relations. The benefits of social interactions are twofold; they serve to establish personal relations and initial weak social capital; and where weaker connections are already in place they serve to strengthen bonds. The more interactions that takes place, and the more relationships (and ideally friendships) develop, the stronger the social capital becomes. Patience is an important

ingredient of this process; as it takes time to develop trust, commitment, and needed relationships. Opposite the neighbouring country of China, where the prime reason for social capital was found to be material gains (Dunning & Kim, 2007; Grainger, 2010; Lytras et al., 2005; Thongyou, personal communication, September 14, 2013; Wong et al., 2007), the Lao were found to be less concerned about material gains and more about good and harmonious relations as an end in itself. It is in this context, of cultivating good relations, that it is important for actors to have a sense of humour, endeavour to be patient, provide favours, show modesty and demonstrate interest in the local culture. These findings from Northern Laos resembles the situation in Thailand, where the enfolding literature documents the separation between business and social relationships is unclear, and where relationships in most instances are developed before business commences (Chang, 2004; Purchase & Phungphol, 2008).

A recurring theme that persistently emerged during the interviews and observations was a concern of trust. This finding corresponds well with research conducted by Hall and Gingerich (2009) and Witt and Redding (2013) who argue the people of Laos has one of the lowest levels of confidence (in the region) that strangers will act honestly. For that reason, when seeking to move from being a stranger, or outsider, to become a member of social capital networks – it is important to project an image of being reliable and trustworthy. Of course, trust is a two-way road, and while it is important to project an image of being trustworthy before inclusion in social capital networks can take place, it is equally important to find reliable and trustworthy social capital networks to become part of. While it is relatively easy to meet new people and to establish weak social capital, all respondents stressed the importance of finding the right people with whom to network; people who are trustworthy, who are capable, and who already have relevant social capital connections. This is something especially foreigners grapple with, as they tend to be bad judges of Lao people, and because they have little or no networks when they arrive in Laos in the first place. The complexity of finding trustworthy, capable, and well-connected locals was found to be amplified by the fact that many foreigners make their first local contacts while initially visiting Laos as tourists; and because many locals who seek quick returns are drawn to this industry. A more viable approach to social capital development, with the right people, was found to be through patience and social interactions (as described above). When reliable and strategic important connections have

been found – the next step is to develop trust with these connections as a deliberate strategy through the utilisation of the tactics illustrated in Figure 8.3.

Patience was found to be an aspect of social capital development that many FDIs grapple with; foreigners tend to have too much work ethic to spend the time needed to develop good relations in Northern Laos. Yet, patience was found to form an important part of Lao life and social capital development. During the four field trips to Laos, patience was observed everywhere. Very few people, if any at all, would seem to be in a hurry. People were observed in conversations; shopkeepers talking to customers, farmers and their families sitting in small open huts, or people hanging around small food stalls chatting.

Repeat business also emerged as an important avenue to establish trust and social capital with other trustworthy operators in Northern Laos. Basically, through repeat business one can get to know people, slowly establish relationships, while at the same time develop an understanding of who can be trusted and who one should seek to develop social capital with.

Face, or *na*, in the form of goodwill was found to influence all aspect of social capital development; people with goodwill and a positive reputation in the community found it easier to bridge the gap into new social capital networks – and were able to make bigger requests of their existing networks. Accumulated findings from the three case studies in relation to *na* will be discussed in light of the enfolding literature later in this chapter.

The final element of the above model, intermediaries, was found to be an effective avenue into additional social capital networks (as long as an actor is already part of at least one reliable social capital network). Although an actor may have a valuable social capital network in Northern Laos, and while most common business operations may be handled through that network, there will be instances where assistance from outsiders will be required. In such instances an effective system exists where an actor can tap into connection's connections. Basically, social capital is transferrable, and intermediaries can help bridge the gap between insiders and outsiders. When reliable intermediaries from one's own social capital network are used, a key benefit is the fact that they have an obligation to only recommend someone trustworthy and suitable for a given task; not meeting this obligation would harm the intermediary's social capital and reputation.

The concept of intermediaries is demonstrated in Figure 8.4. In this illustration, A is a close connection of both B and C. If B requires assistance from C, but B does not personally know C (and have no social capital with C), then it is possible for B to use A as an intermediary in order to connect with C (and to tap into the social capital A holds with C).

**Figure 8.4 Intermediaries**
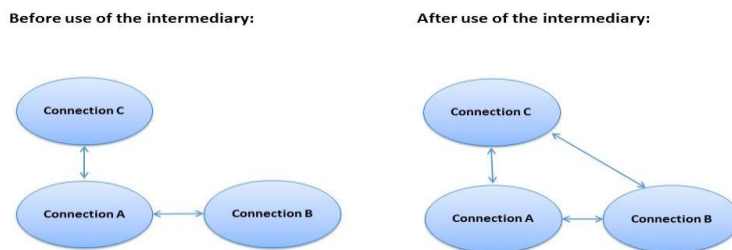


An example of this principle that emerged during the research, involved a respondent who needed special supplies from Thailand. This respondent (B) was closely connected with a hotel manager (A) in a town on the boarder to Thailand. The hotel manager (A) in the border town had close connections (C) among the customs officials at the nearby crossing into Thailand. As previously mentioned, B found himself in a situation where special items needed to be imported from Thailand (and it was unclear if these items uninterrupted could cross the border). Fortunately, B had on numerous occasions supported A (A was in debt to B). For that reason, B contacted A to ask for assistance with the customs officials (C) – and soon thereafter the special items could cross the border with no obstacles.

The graphical illustration of avenues in social capital networks in Northern Laos (Figure 8.1) of social capital development was brought to Laos during the fieldtrip conducted in October 2014. Here the model was presented to, and discussed with, three of the respondents who participated in the series of case studies conducted (R1, personal communication, October 2-9, 2014; R4, personal communication, October 6, 2014; R26, personal communication, October 3, 2014). All three respondents agreed that Figure 8.1 provides a comprehensive illustration of the methods that can be used to bridge the gap

into the local social capital networks. Upon seeing the illustration R26 (personal communication, October 3, 2014) said:

*"Yes, that certainly, that certainly, sums it up. Whether it is practical to do that the whole time is a different matter."*

Of course, a very important insight that emerged from the study is that respondents did not seek to build *teun tang sangkhom* (the whole time) indiscriminately; the time spent building social capital would correspond with the importance of the relationship. For something trivial, like getting standard supplies, one would get down to business straight away without too much consideration of social capital development – whereas one would take time to build relations in cases where one could see a strategic benefit of strong enduring relationships. This being the case, as the intangible capital (that social capital represents) comes with reciprocal responsibilities; when assistance is required by a member of a network the obligation to provide cannot be ignored. It is therefore important to carefully consider what networks it would be desirable to form part of (before starting the process of accruing social capital within them). In the enfolding literature Purchase and Phungphol (2008) refers to a similar concept in their discussion of network position within social capital; here they argue that actors must carefully consider potential partners position within their social capital networks (and how potential relationships will optimise economic benefits).

As has been seen above, a number of avenues exist which can help foreigners bridge the gap into social capital networks in Northern Laos. Actors seeking to bridge the gap into Lao social capital networks would normally use a combination (if not all) of the avenues illustrated in Figure 8.1. However, it is important to note that these avenues are by no means a complete list of paths in which the gap between insiders and outsiders can be bridged; rather it is the avenues most often mentioned by respondents in Northern Laos. Obliviously, one way to shortcut the often long and cumbersome process of bridging the gap into a strong reliable bonding social capital network is through marriage. The majority of foreign respondents involved in the research were locally married. Respondents, who were not married, were found to have developed other very close bonding connections (e.g. strong friendships) with actors that were already part of needed networks (and here parallels were drawn between the responsibilities and commitment required for these relationships to that of being married in Northern Laos).

### 8.2.4 Linking context

Linking social capital refers to social capital that works on the vertical level through the linking of actors from different social and economic backgrounds. It can help individuals form links with people in a position of power – and it can connect actors with more formal institutions like government officials (Putnam, 2005; Woolcock, 2001).

An interesting finding that emerged from the research relates to state involvement in business. During the three case studies conducted in Laos, the local government was found to be rather business friendly and to allow businesses to be privately owned in most industries (something that lessens the need for linking social capital). The private ownership in Laos differs from the situation in the neighbouring communist countries of China and Vietnam. Here the literature documents a high degree of state involvement in business – something that provides businesses with an incentive to develop strong linking social capital (Deng & Kennedy, 2010; Hansen et al., 2009; Hu et al., 2010; Pearce & Robinson, 2000; Wang & Ap, 2013; Ye, 2012; Yeung & Tung, 1996). The finding, that the Lao traditionally have used less linking social capital, is supported by a study that was conducted in the diaspora Lao community in Toronto (McLellan & White, 2005). In this study the Lao community was found to exhibit strong bonding social capital, some bridging social capital, and little or no linking social capital. In the same study, the Chinese diaspora community in Toronto was found to display strong linking social capital skills. That is, the findings from a diaspora Lao community in Canada mirror the findings from Northern Laos (and China).

One of the reasons as to why linking social capital (during the research) was found to be of less importance in Laos, is the fact that communism was never implemented to the same extent as it was in China and Vietnam. That is, businesses in Laos did not have as much need, as did their counterparts in China or Vietnam (Michailova & Worm, 2003), to pull strings to fill gaps in quotas and allowances that resulted from central planning. Another reason, which emerged during the research, is the fact that Laos is a landlocked country with no ports and a lack of an educated workforce. To make up for these shortcomings, the Lao government has pursued business friendly policies; with limited government involvement in business (and with tolerance for private ownership). Basically,

Lao officials prefer foreign owned business to do well; officials do not like problems, as problems will make it harder to attract additional FDIs. This finding was later confirmed by the extant literature, where it became clear that ownership laws in Laos (when exempting the issue of land ownership) appear much more business friendly than that of their Chinese counterparts (Ye, 2012). A third reason as to why linking social capital is less important in Laos, than compared to the neighbouring countries of Vietnam and China, is the absence of Confucianism in Laos. Dunning and Kim (2007) and Hong and Engeström (2004) argue that within the Confucian ruler-subject system it is common practice for linkages to be formed between people of unequal ranks.

Even so, linking social capital was still found to provide substantial benefits for holders in Northern Laos (e.g. by speeding up approval processes). When one seeks to establish linking social capital, it can largely be fashioned using the same methods as were discussed under bridging social capital. One notable difference relates to the importance of understanding and respecting the hierarchical nature of Lao society. When dealing with people who hold power and authority, one must endeavour to be respectful and subservient. This will provide powerful actors with face (through the acknowledgment of their status); something that will make the powerful actor more inclined to assist when a need for help arises.

During the research, a range of opinions emerged in regard to the effectiveness of Lao bureaucratic processes. Many respondents complained about slow and cumbersome processes, whereas other respondents argued Laos has minimal bureaucracy with fast and efficient systems. When these contradictions were investigated, a pattern emerged where actors who hold significant linking social capital found authorities to be fast and efficient, whereas actors who held less linking social capital tended to rely on time or economic capital to accomplish desired results. The finding that linking social capital with government officials can pre-empt many of the bureaucratic complexities was reflected in the enfolding literature, where Clark (2014) and Martin Stuart-Fox (Stuart-Fox, 2010) argue that access to powerful patrons in Laos can ensure success.

Another important insight that emerged from the study was that the importance of linking social capital correlates with legislative uncertainty. In some cases businesses operate in grey areas of legislation, and in these cases linking social capital is of great importance

when approvals and permissions are sought. When a business operates in a grey area of legislation, standard approval processes may not be in place – and individual decision making in the bureaucracy will in these cases determine outcomes (and linking social capital can have a positive influence on outcomes). In other cases businesses operates under clear legislation, where standard bureaucratic processes can be followed, and in these cases linking social capital was found to be of less importance. This finding is supported by the literature, where Michailova & Worm (2003) argue that social capital are inevitably reinforced in contexts where law is ambiguous. For example, in the more universalist culture of the United States the need for connections, trust and social capital have been replaced by advanced legal systems (Putnam, 2001a, 2001b). This clearly differs to the situation in Laos, where the research and literature review (Fry, 2007; Gunawardana & Sisombat, 2008; Usa, 2007) documents many grey legislative areas; something that suggests linking social capital would be useful in many instances. Similarly, a major finding that emerged from the study was that linking social capital especially would be needed in sectors influenced by the government. This may involve humanitarian aid organisations and investment in areas like mining, infrastructure, and/or hydroelectric power.

## 8.2.5 Face and social norms context

*Teun tang sangkhom* represents a relationship based around structures (e.g. strong personal relationship) and social norms (e.g. trust, reciprocity, and obligatory principles). The structural part of *teun tang sangkhom* (i.e. bonding, bridging and linking) has been discussed in light of the enfolding literature above. The discussion will now take a more comprehensive look at the social norms that guides behaviours within these social structures. Coleman (1988) argues social capital cannot exist without accompanying norms; and in Northern Laos many of these relate to the concept of face. The research revealed face and social capital are closely interwoven in Northern Laos (something that is paralleled in many other Asian countries). For example, Verhezen (2012) argues social capital is a form of symbolic capital, that in much of Asia takes the form of face.

A reoccurring theme that emerged during the research was the importance of saving face through politeness, through consideration of other people's feelings, and through indirectness. This was usually the first thing that sprang to mind when respondents were

asked about face; a finding that was paralleled by the enfolding literature from Thailand that culturally is very similar to Laos (Clark, 2014; Fry, 2014; Komin, 1990; Ukosakul, 2005). During the research conducted, it was firmly established that everyone has a basic right to face – and that great care should be taken to prevent the loss of face. It was also established that a relationship will be harmed if an actor causes another to lose face; that one should avoid contradicting others; that diplomacy should be embraced; and that people should not be put on display when they do something wrong. A foreigner who does not focus on harmonious relations, or who cannot control his emotions, will quickly see his social reputation evaporate in the eyes of his peers. The concept of face, in relation to the social capital discussion, is illustrated in Figure 8.5.

**Figure 8.5 The Lao concept of face (in light of the social capital discussion)**



The top half of this figure illustrates the most importance part of face which relates to saving face through politeness, indirectness, consideration and harmony. However, face can also translate into goodwill, power and influence in the social capital networks; something that is illustrated in the lower part of Figure 8.5. Face in the context of goodwill and reputation can be built upon, or it can be lessened or completely lost, depending on the degree to which an actor adheres to a set of social norms. This finding corresponds well with the enfolding literature, where Boase (2003) argues it is important for people in Laos to build a powerful and influential image – and that requests are more likely to be granted (e.g. in the linking network) when a powerful image in the form of face is in place.

That is, the research revealed that face is linked to politeness, indirectness, harmony, and a concern for other people's feelings (all of which was found to prevent the loss of face). The research also revealed face in Northern Laos is linked to status, reputation, respect, prestige and the public image of a person (all of which was found to generate goodwill). This latter part of face is what really matters for the social capital discussion. While everyone was found to be entitled to a basic level of face, and while everyone's face must be respected, it is the part of face that is linked to goodwill that can be used as a tool to secure social capital (i.e. bonding, bridging and linking). For that reason, the focus of this study into face was somewhat tilted toward ways in which face can be used as a catalyst to secure goodwill and social capital. During three rounds of research in Northern Laos, a pattern emerged of ways in which face in the form of reputation and goodwill can be strengthened. Basically, by meeting social norms and by fulfilling one's social obligations, an actor can build up goodwill (and thereby accrue face); something that later enables actors to access the intangible resource social capital represents.

The social obligations that can build up goodwill and reputation most commonly mentioned by respondents are illustrated in Figure 8.5. They include being reliable and trustworthy, provision of favours to one's social capital network (and ideally also the wider community in the form of social contributions), returning favours when these are received, being a sociable person, attending and hosting ceremonies (ideally with powerful actors), and to a smaller degree maintaining appearance (incl. a façade of wealth and perfection). These elements can, when used correctly, provide goodwill by augmenting the social character of a person. During the following discussion about the elements included in Figure 8.5 – it is important to note that this by no means is an all-inclusive list of things that can generate face in the form of goodwill and reputation. Rather it is the factors mentioned most often by the respondents interviewed. Face in the form of reputation and goodwill relates to everything a person does and could for that reason include many factors.

During the following discussion the reader is also urged to keep in mind that face and social capital are closely interwoven in Northern Laos; and that the following social norms relates to bonding, bridging, and linking social capital as much as it does to face. Basically, during the research in Northern Laos it became clear that a great deal of overlap occurred between the different structures of social capital; respondents would talk about

face, bonding, bridging and linking social capital all at the same time – and respondents did not seem able to identify clear lines between the concepts. When this issue was investigated in the enfolding literature, it became clear that Purchase and Phungphol (2008) had similar experiences when investigating social capital in Thailand.

During the fieldtrip conducted in Northern Laos in October 2014, the graphical illustration of ways in which face can be saved and created, was discussed with three of the respondents who participated in the series of case studies conducted (R1, personal communication, October 2-9, 2014; R4, personal communication, October 6, 2014; R26, personal communication, October 3, 2014). All three respondents agreed that Figure 8.3 provides a comprehensive illustration of the avenues to preserve and accrue face – and none could think of themes not included in the model. After examining the illustration R26 (personal communication, October 3, 2014) stated:

*"It all seems to make sense, really…but whether it is all necessary for what you are trying to achieve; it seems like a lot of work just to get your licence."*

This statement emphasises an important point. Figure 8.5 provides a theoretical understanding of the main avenues to construct face in the form of goodwill identified by the respondents included in the research. When examining individual statements made by each respondent, very few would use all of these components (to the full extent) to accrue face. Rather, each individual respondent would use a combination of avenues to build goodwill and reputation for them and their operations. In the following each of the elements (that can promote face in the form of reputation and goodwill) illustrated in Figure 8.5 will be discussed.

### 8.2.5.1 Continuous interactions

Throughout the research, all respondents identified social interactions as being an important part of Lao culture – as well as an avenue to meet obligations, develop relations, and to accrue face. Successful business operations require good networks, and material gains are only part of the reason for relationships in Northern Laos, another important function is the relationships themselves (something the locals genuinely appreciate). Attending and hosting ceremonies (preferably with powerful actors) was found to be an important form of social interaction for social capital development; something supported

by Stuart-Fox (2010) who argues that one's own power and prestige enhances with access to powerful patrons. For all respondents the story was the same; they participated in ceremonies because it forms part of one's social obligations, because it builds goodwill in the form of face, and because it means they form part of the community in which they operate their businesses. This finding from Northern Laos corresponds well with the enfolding literature, where Purchase & Phungphol (2008) argues the majority of business relationships in the culturally compatible country of Thailand also originates from social networks.

When attending ceremonies, the research documents that actors must show respect and submissiveness when powerful patrons participate. Face represents a person's public image, and showing respect for the reputation of powerful patrons through submissiveness can produce goodwill which can translate into benefits for social capital. What this means in practical terms in Northern Laos, is that when powerful people attend a ceremony, it can be expected that they will arrive late and leave early (because they are important and busy). Within this context, actors who wish to develop face and linking social capital with the powerful actors should stay longer to show submissiveness/respect (and thereby build the public image of the important connections). When less powerful actors adhere to this social norm, when they display the correct respect, they will at the same time build up goodwill (in the eyes of the powerful actors). In cases where respondents hosted ceremonies in Northern Laos, and when officials attended these, the respondents would build face because they received important visitors and because their important associations would be on display. In these situations, the respondents stressed the importance of returning the favour of attendance e.g. through the provision of better foods and wines. These findings are reflected in the literature from Thailand. Here Ukosakul (2005) argues face is identical to ego (and that the basic rule of Thai interaction is preservation of people's ego) – and by Intachakra (2012) who argues status-consciousness must be observed in Thailand as face relates to one's sense of place in relation to others.

## 8.2.5.2 Favours

Another way to build reputation, goodwill, and face was found to be by providing and returning favours. Face in the form of goodwill relates to everything one does – and the provision of favours will project an image of a person being reliable and helpful. The more

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a given actor helps other people, the more this person will be viewed as an important pillar of the social capital networks (and the more face in the form of goodwill will be accrued). In particular, it was discovered that actors who provide more favours than they receive, were found to accumulate significant face and social capital in Northern Laos. This finding is confirmed by the enfolding literature where (Lim, 2003) argues generous acts in other Asian countries can lead to face – and by Boase (2003) who argues face in Laos is gained when in-debtness is honoured. The importance of providing and returning favours is also confirmed by Ukosakul (2005) as well as Purchase and Phungphol (2008), who argues the recognition of mutual obligations (i.e. exchanges of favours) also forms part of face and social capital in the Thai context – and by Hwang (1987) who identifies similar practices in China.

Favour exchanges can be of both a tangible and intangible nature. Intangible favours was found to be the primary form of favour exchanges in Northern Laos, and may include anything that helps and supports other people. Tangible favours, the provision of something physical like gifts or money, was observed less frequently in Northern Laos. The most common form of tangible favours identified was the practice of providing envelopes with money as gifts during weddings and other ceremonies. The more important someone is in the community, or for one's business objectives, the more one should provide in the envelope. Other common forms of tangible favour provision include banquets for business partners or donations of beers for company functions; both of which enables social capital to be developed with strategic important partners. For example, during the research many company functions involving significant alcohol consumption were observed – and an actor can strategically build up face in the form of goodwill if beer donations are provided for these functions.

When material favours are provided as a mean to build face, it was discovered that it is important to do so in public. This could for example be the provision of an envelope publicly at a wedding or donations of beers for a company function. All respondents stressed that one-off payments under the table are both illegal and frowned upon in Northern Laos. In cases where enticements are provided (e.g. to move urgent paperwork through the system faster) payments are disguised (e.g. as an express fee) as an obvious incentive would make the receiver look greedy and result in the receiver losing face.

Within the context of material favour provision in Northern Laos, it can be somewhat difficult to distinguish exactly where the provision of gifts to build face and social capital finishes and where bribery begins. The line is somewhat blurred. Fortunately, a good explanation was found in the enfolding literature. Here Verhezen (2012) argues gift-giving in Asian business can be viewed either as a bribe, or as a tool to strengthen business relationships, depending on the circumstances under which a gift is provided. When used to strengthen face and relationships, the provision of gifts can be considered an art form that is guided by social norms that secures legitimacy (Verhezen, 2009). In Northern Laos, the guidelines for gift-giving as a tool for relationship building involve the provision of gifts in public. The examples above of envelopes at ceremonies and donations of beer for company functions are clearly public gestures and thus will be considered legitimate. This, of course, is fundamentally different from the one-off payments of bribes which all respondents stressed are illegal in Laos. That is, while a one off express fee to accomplish a desired result may be considered a bribe – the provision of small gifts, banquets or favours can under the right circumstances be considered a tool to strengthen business relationships. Except for gifts associated with ceremonies or donations, gift exchanges were found to be significantly less important in Laos than what the literature documents is the case in China (Huang & Rice, 2012; Li, 2011; Wedeman, 2013).

### 8.2.5.3 Trust

During the research a pattern emerged of a general high level of mistrust – and one way to build goodwill, image, and face is to conduct business in a reputable and trustworthy manner. This finding from Northern Laos is supported by research from the culturally similar country of Thailand, where Purchase and Phungphol (2008) argue personal relationships, commitment, and trust should be developed before business transactions commence.

During the research, Lao business legislation was fund to be rather vague. Considering this finding – it is plausible that trust as part of face is of even greater importance in Laos than in Thailand. This is confirmed by Hall and Gingerich (2009) and Witt and Redding (2013) who defines social capital as trust – and within social capital distinguishes between interpersonal trust and institutionalised trust (which is based on confidence that others will act honestly as a system is in place that sanctions dishonesty i.e. legal frameworks).

According to Witt and Redding (2013), Laos scores the lowest among a number of countries in Asia on the belief that strangers will act honestly. It is unsurprising that this lack of institutionalised trust limits the ability of strangers to do business with each other (without the fear of opportunism) – and that it at the same time encourages Lao people to rely on trusted social capital networks. This is paralleled by research conducted by Fukuyama (1996) who argues family businesses are more prominent in low trust societies like Hong Kong, Taiwan, and Italy. During the research, it was discovered that a breach of confidence within an established bonding social capital network will have immediate and significant consequences. However, acting improperly to foreigners outside the social capital networks may have little or no consequences. That is, if a Lao breaches an agreement with an outsider who has not become part of the social capital networks, where members look after and trust one another, the Lao may experience no or limited adverse consequences (for their face or social capital).

## 8.2.5.4 Social contributions

Throughout three case studies it was documented that doing good in the community was yet another avenue through which actors can meet their social obligations and build face in the form of goodwill. Respondents were engaged in a range of general community contributions such as school book donations, medical assistance, and even the provision of electricity. During the research it became clear that the respondents engaged in social development because they wanted to contribute to the community in which they settled. An added benefit, which most respondents only discovered later, was that making social contributions have benefits for their face in the form of goodwill (which also augments their social capital). All main respondents of the study engaged in social contributions, the most noteworthy example was R23 in the second case study. This respondent was involved in significant projects aimed at improving the lives of locals. The face in the form of goodwill accrued from these donations was found to translate into informal social capital credits – and as a result R23 experienced little bureaucracy and very helpful authorities when assistance from officials was required.

The Buddhist belief in karma is deeply embedded in the Lao culture (Boase, 2003; Holt, 2009; Stuart-Fox, 2010); and karma was found to be closely aligned with social

contributions. Karma is fundamentally a belief in cause and effect, where the deeds one carries out will later rebound. The idea being that an actor who sows goodness will reap goodness; while an actor who propagates evil will have evil returned. What this means for the face and social capital discussion, is that actors who make social contributions, who provides favours, and who generally does the right things – they will build up face in the form of goodwill and have good things returned to them. Westerners, who may not believe in karma, can simply view the accumulation of good karma as accumulation of social capital credits. When these are in place, members of the social networks will be more inclined to assist when a need arises.

That benefits for face and social capital can be gained from the accumulation of good karma in Laos is also supported by Western literature in the area of evolutionary biology theory (Nowak & Sigmund, 2005; Uchida & Sigmund, 2010). In studies that focus on the development of human societies, it has been documented that natural selection does not necessarily favour the strong and selfish who work to maximise their own resources and wealth (at the expense of others). Rather, natural selection has been discovered to favour people who demonstrate cooperative and altruistic behaviours. It has been documented that people tend to return helpful and harmful acts in kind; even in cases where acts have been directed at third parties. Basically, an individual who helps other people gains a favourable reputation in the community – and help is therefore channelled towards this person from many sources (Nowak & Sigmund, 2005; Uchida & Sigmund, 2010). When social contributions are made in Northern Laos, the positive effects resembles that of a rock thrown into a calm lake with rings rapidly spreading from the point of impact; something amplified by the communitarian nature of the Lao people and the fact that locals relish small talk and social interactions (where rumours quickly spread).

### 8.2.5.5 Appearance

When conducting business in Northern Laos it is important to make an effort to be neatly dressed (polo-shirt and coloured trousers will normally be adequate). Another factor that was found to build social standing, reputation and goodwill (or face) relates to maintaining a facade of wealth and perfection. While Laos is still a Less Developed Country, a significant increase in materialism (in urban centres) has been observed during the four fieldwork explorations conducted between 2006 and 2014. Luxury cars now roam the

streets, imported beers (Heineken) are readily available, and items that display wealth and perfection have been widely observed. The observations that appearance matter, are confirmed by Schopohl (2011) who argues government workers often use their additional income to finance a lifestyle suitable for their status – and by Rehbein (2007) who argues the people of Laos no longer define their social position exclusively in relation to their village. A public image of good appearance, wealth, and perfection was during the three case studies found to contribute to the reputation and goodwill (or face) that a person holds among locals. This resembles the situation in other Asian countries, where the accumulation of materialistic goods has also been associated with face, and where people have been found to engage in significant spending to impress others (Chen, Yao, & Yan, 2014; Lim, 2003). In spite of this, it did not appear that the foreigners, living in Northern Laos were too concerned about materialism. If anything, they seemed to cherish the more traditional Lao modesty.

## 8.3 Findings and discussion - part two

The primary aim of the research conducted relates to the form and use of social capital among FDIs in their interactions with locals in Northern Laos, the extent to which existing theories explain the use of social capital, as well as the similarities and differences between existing social capital theory with that used in Northern Laos. The main findings relating to these objectives were outlined above. A secondary aim of the study, which was investigated to a lesser extent, was to examine the origins of social capital in Laos. The focus will now turn to this aspect of the findings. The origins of social capital in Northern Laos is an important subject to examine – as the path to social relationships development in any country will be heavily influenced by the local culture, belief systems, and institutional infrastructure (Dunning & Kim, 2007; Hawkins & Maurer, 2010; North, 2003).

Based on the literature review that was conducted for the initial conceptual framework, it was argued that the distinctive version of social capital that exist in China (which served as a benchmark for the research in Laos) evolved the way it did to enable people to deal with a set of conditions that have influenced Chinese society. These conditions includes uncertainty and rapid changes, collectivism, high power distance, limited legal

infrastructure and Confucianism – and the hypothesis was that similar factors would have influenced the evolution of social capital in Northern Laos.

While many of these conditions mirrors the situation in Northern Laos, and although the Lao people originated from China (Lee, 2008; Usa, 2007), the research revealed that Confucianism is absent in Lao society. This is something that partly explains differences between social capital in China and Laos. Basically, Confucianism provides guidelines for social order, relationships, loyalty, hierarchy, proper conduct and an organised society (Crombie, 2011). Confucianism helps explain why social capital can be viewed as an institution with clearly defined rules in China (Hitt et al., 2002) while the absence of Confucianism in Laos helps explain why social capital is less institutionalised and why it operates around less clearly defined norms. Many of the respondents in Northern Laos conducts business in both China and Laos, and it became evident from these respondents that Chinese social capital is commonly used as a calculated strategy to reach desired goals. This assessment is supported by the enfolding literature, where Purchase and Phungphol (2008) argue Chinese social capital is used as a deliberate strategy to obtain favours, develop trust and access resources.

The original conceptual framework, which was based on existing theory, formed the basis for the investigation into the factors that shaped the distinct version of social capital which can be found in Northern Laos. In line with the structured-case methodology (Caroll & Swatman, 2000) a series of case studies were undertaken in Northern Laos, each of them culminating in a revised conceptual framework that incorporated the most recent discoveries made in Northern Laos. During these research cycles, it was documented that the distinctive version of social capital that exist in Laos, evolved the way it did to enable locals to deal with a set of conditions that characterise Lao society. A summarised version of the findings into the origins of social capital in Northern Laos can be viewed in Table 8.3.

**Table 8.3 Summarised findings & progression of the conceptual framework**

| Reasons for social capital: | The original conceptual framework (based on Chinese and generic social capital theory): | | Summarised findings from Northern Laos: |
|---|---|---|---|
| Uncertainty and Change | Change and uncertainty caused by war, revolutions, and changing policies have led to a need for trust and close relationships/guanxi networks in China. | | Lao history has been marked by transformations. The people of Laos have been forced to migrate and change their livelihoods due to conflict, instability and significant political and economic changes; circumstances that have been counterbalanced by strong reliable teun tang sangkhom networks. |
| Limited legal infrastructure | Personal connections and networks, based on mutual trust and obligatory principles, compensates for deficiencies in the weak Chinese legal institutions. | | Personal networks and connections, based on mutual trust and obligatory principles, compensates for legal deficiencies in (Northern) Laos. |
| Confucianism | Confucian teaching stresses that everything exist in a state of relationships. This again supports the networking and social relations aspects of guanxi. | | The influence of Confucianism on teun tang sangkhom is negligible. |
| Collectivism | People living in collectivist societies are deeply embedded in social structures. This reinforces the need for norms, trust, and social relations (which also forms part of *guanxi*). | | Laos is a collectivist country where people are deeply embedded in strong interdependent relationships. This reinforces the need for norms, trust, and social relations (which also forms part of teun tang sangkhom). |
| High Power Distance | Within the high power distance society of China, actors have clearly defined places in the social hierarchy. A powerful actor gains face, mianzi, when assisting weaker members of the *guanxi* networks. | | Karma supports high power distance – and inequalities contribute to the distinct version of social capital (in particular linking) that exists in Northern Laos. Powerful actors gain face, *na*, and good Karma when they help weaker members of the community (or within their social capital networks). |

The original conceptual framework, which formed the hypothesis for the origins of social capital in Northern Laos, can be viewed in the left part of Table 8.3. A summary of the ultimate findings and conclusions from Northern Laos can be viewed in the right part of Table 8.3. As can be seen in this table, the origins of social capital in China and Laos are, with the exception of Confucianism, similar. Each of the major factors that were found to have contributed the version of social capital that exist in Northern Laos will be discussed below.

### 8.3.1 Uncertainty and change

One of the factors that were found to have shaped the distinct version of social capital that exist in Northern Laos was uncertainty and change. Lao history has been marked by transformations; the people of Laos have been forced to adopt, migrate and change their livelihoods due to conflict, instability and radical political and economic changes (Chheang & Wong, 2014; Fry, 2007; Lintner, 2008; Rigg, 2005). The historical changes and developments in Laos mirror those of China; with civil war, communist takeover, political and economic centralisation, and later economic reform – just within a shorter timeframe. These changes have produced a great deal of uncertainty among the Lao people, and the accumulated findings indicate this has been counterbalanced by strong reliable social capital networks; the people of Laos have basically relied on social capital as a solid rock in a stormy sea. Through an examination of the enfolding literature, it was discovered that communities in other contexts exposed to significant uncertainty and change also have counterbalanced this by strong reliable social networks (Cook, 2005; Michailova & Worm, 2003; Narayan & Pritchett, 1999).

During the research it also became clear that conflict, divisions, and rapid political and economic changes has caused a lot of mistrust in Lao society; mistrust that has been amplified by the fact that the country was never truly unified in the pursuit of common goals. In contrast to the situation in China, the changes that took place in Laos simply happened too quickly for everyone to successfully move in tandem. Much like rapid change and uncertainty encourages people to rely on trusted networks, so would general mistrust in society encourage people to rely on people they can trust which can often be found within close-knit bonding communities (Fukuyama, 1996). This assessment from Northern Laos was mirrored in a study by Hopfensitz and Miquel-Florensa (2014) conducted in Columbia; a country that also experienced a rupture in trust and social networks due to long-lasting armed conflict. In Columbia it was discovered that social capital is persistent and that people exposed to ruptures in this society, like in Northern Laos, compensate with higher levels of social capital (based around trust and obligatory principles).

## 8.3.2 Legal

Throughout three case studies conducted in Northern Laos, it has been established that the Lao legal system is relatively weak and that personal connections, or social capital, compensates for legal deficiencies. The finding, that significant limitations exist in Lao legislation, is supported by the enfolding literature (Gunawardana & Sisombat, 2008; Hall & Gingerich, 2009; Leung et al., 2010; UNDP, 2006; Witt & Redding, 2013). The interpretation that personal connections compensates for legal deficiencies is supported by Grainger (personal communication, June, 2013) who argues relationships can replace the rule of law in countries where it offers little protection; by Michailova & Worm (2003) and Verhezen (2012) who argue that tight personal relationships are inevitably reinforced in contexts where people are not protected by law; and by Dunning and Kim (2007) who argue that people in societies with underdeveloped structures are likely to rely on informal structures for security and certainty.

The finding that social capital can be used as a substitute to legal frameworks is furthermore supported by Putnam's (2001b) research into the decline of social capital in the United States of America. In this research Putnam argues that an unprecedented rise in the number of lawyers over the last 45 years correlates with an unprecedented decline in trust and social capital. Lawyers and the associated legal institutions have basically replaced the need for social capital in the United States of America. Comparing Putnam's research to Laos, and considering the fact that a court system was only introduced in 1990, and that a commercial court was first established in 2003 (Usa, 2007), it is reasonable to think that the people of Laos may have filled the judicial vacuum with networks founded on trust and obligations.

The research conducted in Northern Laos firmly established that respondents did not use the local legal system, it found that locals have a socialised understanding of justice, and that people are expected to mediate their own business concerns. Mediation, obviously, becomes a lot easier when business is conducted within social capital networks (where actors quickly lose face if norms are not carefully observed).

In many Western countries there is a straight–forward no-nonsense approach to business with a focus on the deal and the associated outcomes (Trompenaars & Hampden-Turner, 1998). Over time, if business continues, relationships and social capital may develop.

During the research it became clear that in Northern Laos it is the other way around. Basically, you start with people you can trust, something that takes time to ascertain. When a relationship of trust has been firmly established, then you can move into business. This approach allows untrustworthy actors to be filtered out at an early stage (and it is something that is well suited to an environment of limited legal infrastructure). In Northern Laos it is not so much about what is in the contract; it is about what is in the relationship.

## 8.3.3 Collectivism

Collectivism is another factor that was found to have contributed to the distinct Lao version of social capital. The research identified Laos as a collectivist society, and the social nature of the Lao people was found to have reinforced the need for norms, trust, and social relations (which also forms part of *teun tang sangkhom*). Basically, people who live in collectivist societies are deeply embedded in strong interdependent relationships, and this is something that supports high levels of social capital (Dunning & Kim, 2007; Yeung & Tung, 1996). This is confirmed by Purchase and Phungphol (2008) who argue that the collective nature of Asian societies means social capital has developed, and is used differently, compared to that which can be found in Western contexts.

Even though Laos was found to be a collectivist society, it was during the research documented that Laos is less collectivist than its Eastern Confucian neighbours. This was unanimously confirmed by the many respondents who also conduct businesses in Vietnam and China. For example, during the three case studies it was revealed that Lao are readily willing to jump ships when better employment opportunities present themselves (although in some cases whole families were found to change employment at the same time). An explanation as to why Laos is less collectivist than its Confucian counterparts was found in the extant literature. Here Boase (2003) argues the Buddhist belief that individuals, through the principle of Karma, are responsible for their own actions explains why Laos is slightly less collectivist (than its eastern neighbours).

## 8.3.4 High power distance

Literature from the neighbouring country of China suggests high power distance contributes to (linking) social capital development (Banfe, 2011; Dunning & Kim, 2007;

Hitt et al., 2002; Park & Luo, 2001; Yeung & Tung, 1996). This is echoed by (Verhezen, 2012) who elaborates that high numbers of family and state controlled business has contributed to the importance of social capital across the Asian region (in that centrally controlled businesses provide an incentive for people to develop (linking) social capital).

Furthermore, the more power distance that exists in a given society – the more people are in a position to help weaker members of their networks (and thereby gain face). For that reason one of the factors that was researched, and later found to have contributed to Lao social capital, was high power distance. All key respondents of the research argued power distance is high in Laos. All key respondents (who all have a history of helping people in need) also argued that powerful actors in Northern Laos gain face in the form of reputation and goodwill when they help weaker members of the community (or within their social capital networks). This finding is supported by the literature where Stuart-Fox (2010, p. 174) explains about Laos:

*"One gains advantage through favour of someone in a superior position in the social hierarchy, while those in superior positions increase their social power and wealth through expanding the network of those dependent upon them. The more powerful one's patron, the greater one's own power and prestige. For a patron to build a power network he must have resources to disburse, most commonly access to the resources and power of the state. Examples of patronage range from intervention to secure a job or win a court case to the bestowal of monetary benefit in the form of access to resources, awarding of contracts, reduction of taxes, provision of loans and so on."*

It should be noted, however, that while respondents stressed that power distance in Laos is high compared to Western standards – it is less steep than in Confucian environments like China or Vietnam. This finding was confirmed by observations made during the three case studies, during which many openly gay lady-boys were spotted on the streets and in the hotel and restaurant sectors. R1 (personal communication, April 8-19, 2012) assured the author that older members of their family hierarchies would not approve of such practices, but that they would not have the power to prevent it (like their counterparts in the more hieratical Confucian societies like China or Vietnam would).

## 8. 4 Summary – findings and discussion

An extensive literature-based scrutiny of the aggregated findings has been complete in this chapter - and the fact that many of the practices observed in Northern Laos have been replicated in other contexts and situations has consolidated the findings and led to a more substantial theory.

During the research it became clear that the importance of social capital for business in Northern Laos should not be underestimated – the benefits for holders of social capital in Northern Laos are immense. When developed with reputable people, social capital can basically be viewed as an investment in social relations that helps facilitate returns in the marketplace. Social capital was found to assist holders to get things done in all aspects of business; to access needed resources and information; to develop local knowhow and expertise; to navigate legal and institutional voids; to form strategic and durable exchange relationships with those proven to be committed and reliable; and to gain access to decision-makers.

# Chapter 9 - Summary and Conclusions

The research into the form and use of social capital among FDIs in Northern Laos has now nearly reached completion. Three rounds of research, or case studies, conducted over four fieldtrips have been completed for the study into the phenomenon of social capital in Northern Laos.

This final chapter provides an overview of the thesis structure, a summary of the conclusions in relation to the main research questions, a review of the contributions of the research, key limitations associated with the study, and an outline of future directions for research on the topic of social capital in Laos.

## 9.1 Overall review

Initially this chapter will provide a review of the thesis structure – as this structure lays the foundation for the conclusions drawn. In **chapter one** the research background for this study was outlined, research objectives were identified, and an argument for the importance of the study was provided. **Chapter two** formed the first part of the literature review and offered a discussion of social capital in general and the Chinese version of social capital in particular. Based on this understanding, **chapter three** progressed the literature review by providing an overview of the research scene in Laos, followed by an investigation to verify if the underpinning factors for social capital development in China were replicated in Laos. **Chapter four** offered a methodological review which concluded that interpretative structured-case studies would be the best suited methodology for the research in Northern Laos. **Chapter five, six, and seven** each covered one case study undertaken in Northern Laos (each of which progressed and refined the emergent theory on Lao social capital). **Chapter eight** provided a detailed discussion, and a literature based scrutiny, of the accumulated findings. Finally, **chapter nine** outlines the main conclusions of the study, limitations, implications, and future directions for research on the topic of social capital in Laos.

## 9.2 Major conclusions

Throughout the development of this thesis, and through the fieldwork conducted in Northern Laos, a clear focus has persistently been maintained on the research objectives. Overall this study concludes that social capital is a major force in the successful operation of FDIs in Northern Laos. Based on the initial research questions, and supported by the aggregated findings, the following major conclusions are drawn:

**Firstly**, the primary objective of this research was to identify the form and use of social capital among FDIs in their interactions with locals in Northern Laos. During the research it became clear that social capital in Northern Laos represents a relationship based around structures (e.g. bonding, bridging and linking) and social norms (which supports the structures and leads to face). Social capital structures in Laos were found to be drawn upon to get things done in all aspects of life and business.

Bridging social capital was found to be of particular importance among FDIs in Northern Laos (as foreigners upon their initial arrival in the country have little networks and social capital). FDIs were found to use bridging social capital to cross the gap into the bonding social capital networks (which were found to be of very high importance among locals). More precisely, in the early stages of operations FDIs tend to be focused on cultivating new social capital structures – but gradually over time more and more focus will be afforded to nurturing established social capital networks. This contrasts to the focus of locals, who are born into well-established bonding social capital networks (like families or village communities), and who for that reason tend to favour bonding over bridging social capital. Many of the successful FDIs interviewed were found to have married locals, something that provided these respondents with immediate access to established bonding social capital networks.

A number of common methods which can progress the transition from an outsider to an insider were identified. They include social interactions (ideally with powerful actors), patience and relationship building, repeated business, fulfilment of obligatory and reciprocal principles (including favour exchanges), trustworthy operations, humour, intermediaries, as well as modesty and a genuine interest in Lao people and culture. Abundant face, or *na*, in the form of reputation and goodwill was found to positively influence all aspect of social capital development.

Due to a relatively clear separation between government and small to medium businesses, linking social capital (although important) was found to be less dominant than bonding or bridging social capital among FDIs in Northern Laos. Even so, linking social capital was found to provide substantial benefits for holders (e.g. by speeding up bureaucratic processes). During the research it became clear that respondents who hold significant linking social capital found authorities to be fast and efficient, whereas respondents who hold less linking social capital tended to rely on time or economic capital to accomplish desired outcomes in the bureaucracy. That is, the complexities with slow processes in public institutions experienced by many respondents can, through linking social capital, be reduced or even avoided. Furthermore, actors operating in grey areas of legislation (where decision making is ambiguous), or in industries traditionally controlled by the state, were found to have the greatest need for linking social capital with government officials.

**Secondly**, the study concludes that social capital in Northern Laos roughly matches the overall structures of existing social capital theory. In chapter eight a comparison was made between the original conceptual framework (which was based on existing social capital and *guanxi* theory) and the final conceptual framework (which provided a summary of the ultimate findings from Northern Laos). This comparison revealed that on a strategic level Lao social capital fits within the structures of existing social capital theory from other contexts – but that the tactics used within each of the major structures to secure, and make the most of, social capital (e.g. bonding, bridging, linking) are notably influenced by Lao culture and circumstances.

**Thirdly**, the study investigated the similarities and differences between existing social capital theory with that used among FDIs in their interactions with locals in Northern Laos. When comparing the findings from Northern Laos to mainstream social capital literature, most of which has a Western focus, it is evident that face is a construct where clear differences within the norms guiding social capital exist. However, the findings from Northern Laos draw parallels to the more limited social capital literature that has a focus on Asian contexts (Bian & Zhang, 2014; Hwang, 1987; Imrie, 2013; Lim, 2003; Verhezen, 2008, 2012). When examining this literature, it becomes clear that the interrelation between face and social capital is not limited to Laos.

The original hypothesis suggested social capital in Laos would resemble its counterpart in China. While many parallels were identified between social capital in China and Laos, significant differences were also discovered. The most important difference relates to the conceptualisation of social capital. While social capital is important in both cultures – the Chinese have formally institutionalised and defined the concept (i.e. with structures and words) whereas the Lao have not. Another important difference relates to the aggressiveness by which social capital is used to accrue material gains. Both material gains and strong personal relationships are important functions of social capital in both countries. However, the scale of importance appears to be tilted toward materials gains in China, whereas the research documents the scale seems to be tilted toward good relations as an end in itself in Northern Laos. These findings can partly be explained by the fact that Laos derives many of its values from Theravada Buddhism, in particular the principle of Karma, whereas China has been heavily influenced by Confucianism. Another important reason relates to differences in the historic economic and academic development of the two societies (where Laos traditionally has had fewer resources at its disposal).

**Fourthly**, as the path to social relationships development in any country is heavily influenced by local circumstances (Dunning & Kim, 2007; Hawkins & Maurer, 2010; North, 2003) – the study explored key underlying factors that helped shaped the Lao version of social capital. During the research it became evident that the distinctive version of social capital that exists in Laos, evolved the way it did to enable people to deal with a set of conditions that characterise Lao society. These conditions include rapid changes that have caused uncertainty (which has been counterbalances by strong reliable social capital networks); collectivism (that reinforces the need for norms, trust, and social relations); high power distance (that contributes to linking social capital development); and limited legal infrastructure (which encourages people to rely on trusted networks).

**Lastly**, during the research it became clear, that while the foreign respondents included in the research resided in the northern part of the country, their business operations spanned the entire nation (as the business community in Laos is rather small). Many of the foreign respondents sourced supplies, operated businesses, and worked closely with government agencies in other parts of the country. Furthermore, many of the locals interviewed were found to have moved to Northern Laos from other parts of the country (as a lot of internal migration has taken place). For these reasons, and even though the research was conducted

in the northern part of the country, the ultimate findings are not necessarily limited to this geographical setting.

## 9.3 Implications

Laos is one of the last major frontiers in the world of international business, research, and academic discussion (Barney, 2009; Rehbein, 2005). In Laos, as in most other emerging markets, the economic achievements of foreign investors have been rather mixed (Chansomphou & Ichihashi, 2011; R1, personal communication, April 14-28, 2013; R4, personal communication, April 14, 2012; R25, personal communication, April 20, 2013; St John, 2006b). The research conducted for this thesis is in the area of international business. It has focused on the emerging market of Laos – and it has in particular sought to identify the form and use of social capital among foreign direct investors in their interactions with locals (in the northern part of the country). This research is highly relevant for both academic discussion and international business practice – and some of the more important implications of the study will be outlined below.

In a world of stagnation in many developed markets, Western businesses are increasingly being lured toward emerging markets for growth and expansion. Unfortunately, many of the organisations that expand into the Asian region find themselves bogged down in complex and interwoven social capital networks that they do not understand. While a range of factors clearly contribute to success on international markets – the importance of relationships and social capital in Asia should not be underestimated. The literature documents that social and exchange relationships forms the core of most business dealings in Asia – and that the Western idea of businesses operating in depersonalised marketplaces, through faceless economic transactions, is profoundly inadequate in this region (Chen, 2005; Hitt et al., 2002; Lin & Si, 2010; Peng et al., 2008; Peng & Zhou, 2005; Purchase & Phungphol, 2008; Verhezen, 2012; Witt & Redding, 2013; Ye, 2012).

To complicate matters even further for organisations expanding into Asia – research reveals different Eastern cultures have adopted their own unique variations of social capital (Dunning & Kim, 2007; Hitt et al., 2002; Lin & Si, 2010; Lytras et al., 2005; Peng & Zhou, 2005; Purchase & Phungphol, 2008). For that reason, and in order to capitalise on the potential social capital has as an instrument to reach desired outcomes (i.e. returns in

the market place), it is important to understand the form it takes in a given country. While extensive research (providing valuable insights for practitioners) has already been produced into social capital practices in different Asian contexts, this research has gone beyond the present understanding of social capital by focusing on the emergent market of Laos.

In regard to the theoretical contributions of the research – social capital is a sociological concept used in many fields of study (including business, economics, political science, sociology, public health, and organisational behaviour) that over the last twenty years has witnessed a rapid expansion in research (Daneshpajooh et al., 2014; Krasny, Kalbacker, Stedman, & Russ, 2015; Lin & Si, 2010; Saha, 2015; Stam, Arzlanian, & Elfring, 2014). The importance of social capital is illustrated by the fact that a simple scholar search reveals well over three million academic articles written on the topic. Even though academics have researched and discussed social capital and its variations in many different situations and countries – this study will go past the present understanding of social capital by focusing on the Lao context. It will contribute to the social capital and international business knowledge, it will provide Laos with an enhanced position in academic discussion, and it will pave the way for further research and exploration that can build even greater knowledge (not just in Laos – but potentially also in the culturally comparable countries of Thailand, Cambodia and Myanmar).

According to the Oxford Dictionary (2015) a theory is a system of ideas intended to explain something. A primary objective of academia is to produce greater knowledge, to explain matters of relevance, and to pass along the insights of that knowledge to benefit practitioners and the community (Charlatan, 2013). Through extensive research conducted of practitioners in Northern Laos, it became clear that too much reliance on economic capital is unlikely to lead to desired organisational outcomes in this context; that economic capital must be complemented with social capital in order for a venture to succeed. For organisations seeking expansion into the Lao market, it is hoped that the knowledge developed through this research will make them appreciate the importance of social capital. The theory that emerged from this research has at the same time provided practitioners and the community with practical guidelines on how to access the resource social capital represents, to connect with people of influence, and to identify needed strings to pull.

In conclusion for the implications of this study – considering this research has provided valuable insights into one of the factors that greatly influences business in Laos, and considering that we live in a world of fast expanding international engagement, it is believed this research delivers a meaningful academic contribution that is both relevant and closely connected to the needs of practitioners and the community.

## 9.4 Limitations

During the research it became evident that social capital development can be a rather profitable investment for FDIs in Northern Laos – and while the findings of this study opens up a number of possibilities to access (and make the most of) the resource social capital in Northern Laos represents, the limitations of the research must at the same time be acknowledged.

**Firstly**, it is acknowledged that the outlined methodology, as for any qualitative research, has the potential to be biased. During the research the utmost care was taken by the interviewer to remain neutral, to select respondents, and to ask questions in a manner that would minimise this problem.

**Secondly**, it is acknowledged that the researcher upon initiating this study had limited knowledge about Lao culture and language. However, through a combination of multiple case-studies, triangulation, and linkages to the literature – the phenomenon of social capital in Laos was examined from many angles to validate the findings. Furthermore, respondents were specifically selected based on their in-depth understanding of Lao culture and business practices.

**Thirdly**, the research sought to identify the form and use of social capital among FDIs operating small to medium-sized businesses in Northern Laos. During the research it became clear that the vast majority of FDIs operating small to medium-sized businesses can be found in the tourism, catering, and trading industries (and for that reason this research naturally focused on these industries). During the research it also became apparent that many larger foreign investors can be found in industries such as mining, hydropower and infrastructure. While it would have been desirable to have a broader

range of industries included in the research, the investors in these industries operate large enterprises that were outside the scope of this research (and for that reason were not included).

**Fourthly**, it is acknowledged that a limitation of this study is the judgment sampling method used to select respondents (a factor that has the potential to limit internal validity). However, as previously mentioned, data and methodological triangulation was employed to increase validity through cross verification from several sources and data collection techniques. The idea being that if the same story emerged form a sufficient number of cases, respondents, and data sources – then the conclusions will be very robust (Bailey, 2007; Putnam, 2001a; Yin, 2009).

**Fifthly**, it is acknowledged that the findings developed within a specific context (FDIs operating small to medium sized businesses in Northern Laos) cannot necessarily be generalised outside of that context (George & Bennett, 2005). What this research has accomplished is to develop an initial theory on the form and use of social capital among one population in Northern Laos; and by doing so the study has paved the way for further research and exploration in the field of Lao social capital to take place.

With this limitation in mind, and as previously mentioned, it is important to note that although the research participants resided in Northern Laos, most of their business operations were of a national nature. It is therefore plausible the findings related to Lao social capital (more than social capital in Northern Laos). Additionally, many Lao nationals (some of whom had moved to Northern Laos from other regions) participated in the research. Interestingly, the themes brought up in the answers provided by Lao respondents, were remarkably similar to those provided by the FDIs interviewed. As a consequence, it is plausible that the findings from this research can be reproduced in an array of settings in Laos with no or minor modifications.

**Lastly**, one of the key research areas was Luang Prabang – and initially it was hypothesised that this setting was near ideal as the ethnic makeup of Luang Prabang provides a good cross-section of the Lao population. The assumption was that the findings would allow for insights into social capital practices among all the main ethnic groups of the country. However, during the research this hypothesis was proved wrong. The vast

majority of FDIs' interactions turned out to be with the main ethnic group of Lao Loum (the Thai-Lao ethnic group) which dominates most advanced professions. While the other ethnic groups of Lao Theung (Khmer and Mon) and Lao Soung (Sino-Burmese and Tibetan-Burmese) makes up a good portion of the population in Luang Prabang, these communities were found to be engaged in basic labouring (and FDIs have for that reason little reason to develop social capital with them). What this means, is that the findings of this research relates to the main Lao Loum ethnic group. When this limitation was discussed with R1 (personal communication, April 14-28, 2013), it became clear that Lao Theung and Lao Soung traditionally come from the mountainous regions, and that they live in clan like networks, where bonding would be even stronger than what was found in the Lao Loum ethnic group. Another difference between the ethnic groups relates to Buddhism, which was found to have influenced Lao social capital, but which is primarily practiced by the Lao Loum ethnic group (Evans, 1990).

Above a number of limitations relating to the research was identified. However, it is important to note that every reasonable action has been taken to lessen the weaknesses of the study. Torraco (1997, p. 123) defines theory building as "the process of modelling real-world phenomena" and through modelling it is believed this research has made valuable theoretical and practical contributions in the field of social capital and international business.

## 9.5 Recommendations for future research

In the following a number of key recommendations will be provided for future research into the topic of social capital in Laos (and beyond).

**Firstly**, while several Lao nationals were interviewed for this research (when they belonged to the social capital networks of the FDIs) – a natural progression of this exploratory study would be to undertake a study entirely focused on Lao respondents. This could for example be done within one of the larger Lao organisations.

**Secondly**, a judgment sampling method was used for this research where all the main respondents were selected specifically based on their business success in Laos (it was judged these respondents were able to provide the most valuable insights into social

capital in Laos). However, during the research, countless examples were provided of foreigners who failed in their Lao endeavours (and who as a result moved back to their countries of origin). It could be of interest to conduct a study into the other side of the coin; into the role of social capital development among FDIs who did not succeed in Laos. Much could potentially be learned about social capital from the experiences of people who failed in their Lao ventures (in particular the role a lack of social capital with trustworthy and reliable connections played in their misadventures). These respondents can be found in many Western countries (including Australia) and would for that reason be relatively easy to access.

**Thirdly**, the Buddhist belief in karma was found to be deeply embedded in the Lao culture (Boase, 2003; R22, personal communication, April 14-28, 2013; Stuart-Fox, 2010) and during the research karma emerged as a factor of relevance to the Lao social capital discussion. Karma is fundamentally a belief in cause and effect, where the deeds one carries out will later rebound. According to local beliefs, moral and generous actors who do the right things will build up good karma and have good things returned to them. When viewed in light of the social capital discussion, following the principles of good karma will lead to a good standing, a good reputation, and face in the form of goodwill – all elements that are closely aligned with social capital. While this study provided insights into the role Karma has for social capital, further research into this topic in Laos (and beyond) would be of interest.

**Fourthly**, it has been argued the theory on the form and use of social capital among FDIs operating small to medium businesses in their interactions with locals in Northern Laos potentially is limited to this setting (George & Bennett, 2005). However, the study has paved the way for further research and exploration into social capital in Laos. While it is highly likely that the findings of this research (with no or minor modifications) can be generalised to other populations and geographical settings in Laos, further research would in particular be useful in the areas of:

- The form and use of social capital among big businesses and NGOs (where the findings indicate linking social capital will be of greater importance than what has been suggested by this study).

- The form and use of social capital among locals (where the findings indicate bonding social capital will be of even greater importance than what has been suggested in this study).

- The form and use of social capital among the ethnic groups of Lao Theung (Khmer and Mon) and Lao Soung (Sino-Burmese and Tibetan-Burmese). This research focused primarily on the form and use of social capital among FDIs in their dealings with the main ethnic group of Lao Loum (Thai-Lao) which is dominant in the areas of commerce, trade and governance. Research into Lao Theung and Lao Soung would be of particular importance for NGOs as they inhabit the lower layers of Lao social stratification (and because these groups are targeted by numerous foreign aid development activities).

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