

College of Saint Benedict and Saint John's University

DigitalCommons@CSB/SJU

---

Global Business Leadership Faculty  
Publications

Global Business Leadership

---

2018

## Pawnbroking in Pre-1949 China: 'Soft Strategies' for Overcoming a Negative Image

Qiang Yan

*College of Saint Benedict/Saint John's University, Q0YAN@CSBSJU.EDU*

Michael R. Hyman

*New Mexico State University, mhyman@mnsu.edu*

Follow this and additional works at: [https://digitalcommons.csbsju.edu/gbl\\_pubs](https://digitalcommons.csbsju.edu/gbl_pubs)



Part of the [Marketing Commons](#)

---

### Recommended Citation

Yan, Qiang and Hyman, Michael R., "Pawnbroking in Pre-1949 China: 'Soft Strategies' for Overcoming a Negative Image" (2018). *Global Business Leadership Faculty Publications*. 13.

[https://digitalcommons.csbsju.edu/gbl\\_pubs/13](https://digitalcommons.csbsju.edu/gbl_pubs/13)

In copyright.

Preprint: Yan, Tony and Michael R. Hyman (2018), "Pawnbroking in Pre-1949 China: 'Soft Strategies' for Overcoming a Negative Image," *Asia Pacific Journal of Marketing and Logistics*.

## **Pawnbroking in Pre-1949 China: 'Soft Strategies' for Overcoming a Negative Image**

Tony Yan, Assistant Professor of Global Business, College of St Benedict and St John's University (q0yan@csbsju.edu)

Michael R. Hyman, Distinguished Achievement Professor of Marketing, New Mexico State University (mhyman@nmsu.edu)

© 2018 by Tony Yan and Michael R. Hyman

### **Abstract**

**Purpose:** The means for enhancing the image and business legitimacy of a socially discredited industry—pawnbroking in pre-1949 China—are explored. Previous studies suggest companies operating within such industries cannot solely rely on *hard marketing strategies* "to maximize sales and profits as they do with soaps and shoes" (Davidson, 2003, p.7). Instead, they must find *soft strategies* for improving company and industry image and legitimacy.

**Design/methodology/approach:** This research relies on qualitative analysis of historical data and documents.

**Findings:** *Soft strategies* deployed by Chinese pawnbrokers—such as interpretations, moral value advocacies, and institutionalized arrangements—contributed substantially to improving pawnbroking's image and business legitimacy.

**Research limitations/implications:** Interconnections among ethical values, image, business legitimacy, and select marketing strategies are clarified. The efficacy of historically analyzing previously implemented business strategies and their embedding contexts is discussed.

**Practice implications:** Strategies Chinese pawnbrokers used to mitigate their previously negative image and boost their business legitimacy suggest strategies current socially disapproved companies can use to improve their image and business legitimacy.

**Originality/value:** An historical analysis of pre-1949 Chinese pawnbroking can suggest *soft marketing strategies* for overcoming consumers' negative company and industry impressions.

**Keywords:** Historical analysis, socially disapproved industries, Chinese pawnbroking, image building, contextualized business strategies, business legitimacy

**Article Classification:** General review

### **Introduction**

Pawnshops have been denounced worldwide as exploiters of the impecunious and intensifiers of social pauperism (Bouman and Houtman, 1988; Caskey, 1996; Skully, 1994). In pre-1949 China, many Chinese believed pawnshops were unfair, greedy, morally suspect, and malicious—a negative image generalized to pawnbrokers and their employees. Hence, these shops were easy prey for looting, gauging, and haphazard taxation during socially tumultuous times (Chang and Qian, 1995; Liu, 2016; Qu, 2007; Sun, 1999; Wang, 1964).

Despite their tainted reputation, Chinese pawnshops thrived until they were banned by the communist government in the early 1950s (Huang, 2006; Peng, 1958; Sun, 1999; Wang, 1964; Zhang, 2008). The received economic explanation for their prior success was the pre-communist *penny economy* (Bouman and Houtman, 1988), meaning typical, financially subsistent Chinese households' survival—given the dearth of well-paying jobs—often depended on immediate access to additional funds. Thus, demand for pawnshop loans was substantial.

An economy replete with bankrupt small business owners, low-waged workers, and peasants could sustain a thriving pawnshop industry. However, this industry also catered to big business owners, landlords, and government officials (Chang and Qian, 1995; Liu, 2016; Qu, 2007; Sun, 1999; Wang, 1964), which inspires many questions. Why would wealthy and high-status people patronize pawnshops? What business-related

attitudes characterized pawnshop owners, investors, managers, and employees? What factors shaped the public's industry evaluation? How could the industry improve its image? Answers to such questions relate to the industry's nature, operation, strategies, and social meaning.

The goal for this historical analysis of pre-1949 Chinese pawnbroking is to answer the aforementioned and related questions by examining the *soft marketing strategies* that improved pawnbroking's image and business legitimacy. Relying on only *hard strategies*—such as improving product qualities or reducing selling price—may be insufficient; instead, *soft strategies*—such as conforming to extant societal values, altering those values, or associating with apparently legitimate organizations (Epstein and Votaw, 1978)—can be adopted. Hence, economic, social, and moral rationales underlying Chinese brokers' effort are explored and marketing strategies for revamping the pawnbroking industry's image are highlighted.

Although historical analysis provides cases for examining and testing theories (Mahoney and Rueschemeyer, 2003), learning from history is not merely an epistemological benefit; for example, past business strategies may suggest solutions to current business dilemmas. By tracing the roots and processes of phenomena that shaped past marketing strategies, historical analysis can augment current strategic repertoires. Of course, marked differences in historical versus contemporary contexts generally preclude unaltered application of past strategies to current problems. Nonetheless, intensive exploration of past marketing strategies remains a potentially useful scholarly exercise.

The Figure depicts context and marketing strategy duos classifiable in accord with a 2x2 grid formed from the analogues 'Bottles' (i.e., context) and 'Wines' (i.e., marketing strategy). When historical and contemporary contexts are similar—S1, pure historical analysis—companies may thrive by adopting past marketing strategies 'as is'. However, hindsight may suggest alternative strategies would outperform past strategies—S3, counterfactual analysis—which reflects the openness and flexibility of historical understanding. Using hindsight analysis to answer *what if* questions allows current marketers, who generally have more information and other resources than their historical

counterparts, to design better strategies for solving problems in historically similar contexts. Conversely, investigating past marketing strategies can suggest improved strategies when contexts differ—S2, practice-oriented analysis, and S4, different research domains analysis. Under S2, the mechanisms, forces, and processes that drive strategies transcend contexts, so *prior strategy adaptations* may prove workable. Under S4, the contexts have changed markedly and new strategies should be adopted.

-----Insert Figure here-----

Historical analysis of pre-1949 Chinese pawnbroking includes marketing strategies and their contexts. A S1 approach would show the efficacy of these strategies in pre-1949 China. A S2 approach would offer insights into contemporary pawnbroking, which in 1987 regained its legality in China (Li, 2002; Qu, 2007). A S3 approach demands counterfactual understanding of past strategies (e.g., If pre-1949 Chinese pawnshops adopted certain strategies, would alternative strategies have worked better?). A S4 approach might suggest pre-1949 pawnbroking strategies do not pertain to contemporary pawnbroking and other industries due to contextual differences; hence, new strategies are required. Neither a S3 nor S4 approach is taken here. By focusing on S1 and S2 approaches, the historical meanings and contemporary implications of marketing strategies adopted by the pre-1949 Chinese pawnbroking industry are revealed.

The exposition proceeds as follows. After introducing the characteristics of pre-1949 Chinese pawnbroking that shaped its image, the industry's business legitimacy and ethicality are detailed. Next, the social constraints, external criticisms, and internal defenses of Chinese pawnshops are discussed. Then, the strategies, interpretations, and institutional arrangements adopted by pawnshops to enhance their image and business legitimacy are illustrated. Finally, managerial and scholarly implications are suggested.

### **Pawnbroking in Pre-1949 China**

Pre-1949 Chinese pawnshops operated in metropolitan areas and small towns. In rural areas, some shops established subsidiaries or assigned agents to serve patrons. Geographic location and ties (*Di Yuan*) are important in China due to dialect, life habits, and values similarities.

Most shops were managed by pawnbrokers from two regions: Shanxi province and the Huizhou area in Anhui province.

These two pawnbroker groups embraced similar business strategies and practices. Their shops ranged from small local-based shops to large nationwide shops. They both adopted professional rules and codes; for example, Shanxi pawnbrokers developed a codebook for pawnbroking (*Dang Zi Pu*), whereas Huizhou pawnbrokers used the One Thousand Words (*Qian Zi Wen*), a textbook for children, as a codebook (Huang, 1983; Liu, 1983; Wang, 1964). For rural peasants, both groups followed a seasonal cycle, with money lent in spring paid back (with interests and fees) in fall, after peasants sold their harvested products (Liu, 1983; Sun, 1999; Wang, 1964). To stabilize their business environment, both groups ensured fruitful relationships with government officials. Political elites such as Yan Xishan, Wang Zhanyuan, Zhang Xun, and Cao Kun controlled, invested in, or sponsored many Shanxi pawnshops (Wang, 1964), whereas government leaders such as Li Hongzhang and Wu Tingfang supported Huizhou pawnshops (Liu, 1983; Sun, 1999). Finally, both groups sought business diversification, with many shops investing in real estate, *Qian Zhuang* (the old-styled Chinese bank), restaurants, and used goods stores (Chang and Qian, 1995; Liu, 1995; Qu, 2007).

However, the two groups differed in several regards. Although they operated across China (Chang and Qian, 1995), Shanxi shops dominated the north and Huizhou shops dominated the south. Demarcating northern and southern markets streamlined pawnbroking by encouraging region-specific professional rules and codes. Both groups focused on different traditional Chinese values. For example, Huizhou pawnbrokers believed the smartest elites should serve either in government or as Confucianism scholars, whereas Shanxi pawnbrokers believed these elites should become businessmen. Like other Shanxi businessmen, Shanxi pawnbrokers revered historical hero Guan Yu and stressed Yi (allegiance to friends or family members), whereas Huizhou pawnbrokers embraced Zhu Xi, the main proponent of formal Confucianism (Huang, 2006; Liu and Wang, 2002; Luo, 1979; Qu, 2007; Wang, 1999). Huizhou pawnbrokers tended to hire family members; in contrast, Shanxi pawnbrokers preferred easier-to-manage

non-family members (Cai et al., 2008; Liu et al., 2012).

Pawnshop owners and investors (*Dongjia*) included major rural landlords, industrialists, retired or incumbent officials, and gang members (Huang, 2007; Liang, 2016; Peng, 1958; Sun, 1999; Wang, 1964). These investors or owners (and also pawnshop patrons) were either prevention (i.e., 'safety, security, and responsibility') focused or promotion (i.e., 'hope, advancement, and achievement') focused (Petersen et al., 2015, p.47). Rural landlords wanted outlets for their agricultural surpluses and reliable economic return; industrialist welcomed investible funds, financial diversification, and a venue for off-loading outdated goods; officials sought safe investments; and gang members wanted fronts for money laundering, drug dealing, or other crimes (Sun, 1999; Wang, 1964). In addition, investors from Belgium, Japan, Britain, Switzerland, and Russia operated some pre-1949 Chinese pawnshops (Sun 1999; Wang, 1964).

Pawnshop managers (*Zhanggui*)—often owners or shareholding partners (Sun, 1999; Wang, 1964)—acquired extensive knowledge about their profession by working as front-desk agents (*Guishang Huoji*). Gradually, they gained expertise judging the market value of loan collateral and persuading borrowers to accept loan terms (Wang, 1964). Successful managers often worked for multiple pawnshops and/or invested in other businesses, such as grocery stores, pharmaceutical companies, banks, restaurants, and real estate firms (Chang and Qian, 1995; Liu, 2016; Qu, 2007; Sun, 1999; Wang, 1964).

Pawnshops ranged from small mom-and-pop operations (*Fu Qi Dian*) to conglomerates (Peng, 1958; Sun, 1999; Wang, 1964). This range related to the adopted image-building strategy.

- Larger pawnshops dominated pawnbroking associations and were more likely to acquire a positive image.
- Smaller pawnshops focused on money acquisition and ignored industry associations.
- Unlicensed pawnshops—often controlled by gang members or local thugs—served as fronts for criminal activities such as

drug dealing or money laundering (Sun, 1999; Wang, 1964). Such pawnshops experienced financial reversals when the Chinese government stiffened regulations (e.g., stricter background check required for license approval and more detailed auditing of transactions).

Like pawnshop patrons worldwide, Chinese borrowers pledged various items—such as clothes, gold watches, silverware, furniture, jewelry, agricultural products, antiques, artwork, and real estate—as loan collateral (Chang and Qian, 1995; Feng, 2017; Sun, 1999; Wang, 1964). Pawnbrokers alone assessed the economic value of these items. Borrowers had no legal or moral obligation to return the loans, with pawnshops acquiring the property rights of collateral when loans (plus interests and fees) remained outstanding after a typical one-day-to-18-month maturity date (Peng, 1958; Sun, 1999; Wang, 1964).

In addition to impoverished workers and peasants, pawnshop patrons (*Diandang Kehu* or *Dang Hu*) included rich businessmen, gamblers, prostitutes, and professional criminals affiliated with the Green Gang (*Qing Bang*) or Triad (*Sanhe Hui*). Businessmen, for example, used pawnshops for temporary agricultural product storage (Sun, 1999) or quick monetary assistance to make discretionary purchases (Chang and Qian, 1995; Wang, 1964).

### **Pawnbroking's Business Legitimacy and Ethicality**

In addition to sufficient profitability, business survival requires social, political, and cultural approval (i.e., business legitimacy, which embodies “congruence between the operations of a firm, including the marketing of its products, and the values of the society in which the firm conducts its business”) (Davidson, 2003, p.2). This legitimacy—embedded in ‘background institutions’ (De George 1993)—may evolve with contextual shifts (e.g., changes in personal preferences, political norms, professional or industrial codes, family or clan values, economic ideologies, and national identities) (Ralston et al., 1995; Srnka, 2004).

Because the viewpoints, preferences, and interests of stakeholders often differ (Martin, 2002; Walker, 2010), inter-stakeholder

discourses can reveal the shared basis for a society's ethical values (Green and Donovan, 2010). Similarly, a full assessment of Chinese pawnbroking should consider the *weltanschauung* of all stakeholders.

Ethical judgments in pre-1949 China fall into two subsets: internal-oriented and external-oriented. Internal-oriented relates to whether a company's owner offered assistance to family members, relatives, and friends (Huang, 2007; Peng, 1958). Although possible, this standard need not violate mainstream ethical values. In contrast, external-oriented relates to evaluating acquaintances' and strangers' behaviors. Although relying on society's shared ethical values, this orientation may be more stringent when applied to distant relationships (Fukuyama, 1995).

Evaluation of Chinese pawnbroking by pawnbrokers is internal-oriented, whereas its evaluation by other people is external-oriented. Because their bases differ, these two evaluation subsets can diverge yet partially explain why Chinese businessmen often formed or consolidated businesses based on kinship, family ties, or geography-centered clans (Cochran, 2000; Goodman, 1995; Huang, 2007; Peng, 1958).

### **Social Constraints, External Criticisms, and Internal Defenses**

Various social constraints shape a company's personality (Bowie, 2010) and yield an ethical or unethical culture (Davidson, 2003). Companies offering socially unwelcomed goods or services face two types of social constraints: “those imposed informally by various social groups that can evolve into customs or codes...[and those] imposed by law and regulation” (Davidson, 2003, p.178). Social constraints create diverse benchmarks for social criticism, as ethical responsibility in business is assessed at individual, organizational, and societal levels (Brenkert, 2008; Goodpaster, 2010).

Attitudes toward a company generally depend on evaluations across three dimensions: the offered products' nature, corporate culture, and strategic responses. For example, customers may complain about low product quality, problematic marketing (e.g., ads with incomplete or incorrect claims), lack of personal integrity among employees, or troubling business style (e.g.,

questionable corporate values, strategies, and behaviors). In response, companies may revamp their product, ensure ethical marketing practices consistent with a positive image, or embrace salubrious values, strategies, and behaviors. These options imply marketing strategies likely differ between companies selling socially acceptable versus socially unacceptable products (Davidson, 2003).

Pre-1949 Chinese society generally viewed pawnbrokers and the pawnbroking industry negatively. Pawnshops were regarded as less reputable than other businesses, with pawnbrokers viewed as unsavory characters who perpetrated undesirable values and commercial strategies. Such criticisms pressured pawnbrokers to enhance their industry's image and business legitimacy.

The mechanism driving image building followed these links: social values → people's industry beliefs → pawnbrokers' responses → enhanced image and business legitimacy → better industry performance. As industry legitimizers and meaning makers (McCracken, 2005), pawnbrokers bridged the gap between people's social needs and pawnbrokers' interests. Their efforts reshaped the multi-level attitudes about pawnbroking that led to its wider acceptance.

Many Chinese denigrated pawnbrokers as *excessive profit seekers* who exploited the impoverished. In defense, pawnbrokers touted their informal but convenient services as vital for people lacking access to formal financial services. For example, to offset borrower default risk, most pawnshops limited loans to roughly 50% of the collateral's resale value plus costs—including processing fees and interest—which was similar to other financial institutions extending high-risk loans (Peng, 1958; Sun, 1999; Wang, 1964).

To create a *good corporate citizen* image (Smith, 1994), pawnbrokers touted their business was legal and assisted local communities via donations to schools, hospitals, fire stations, and poorhouses. Similar to modern companies' use of philanthropy and corporate social responsibility to maintain a positive image (Gautier and Pache, 2015; Kanter, 1999), pawnbrokers established cordial relationships with everyone from top government officials to peasants. Positive personal image building by pawnbrokers—who

insisted they were moral equals to other businessmen—contributed to improved attitudes about pawnshops. Chinese pawnbrokers insisted personal integrity could translate into pawnshop integrity (Feng, 2012).

### Boosting Pawnshop Legitimacy

Chinese pawnbrokers did more than passively defend pawnshops; they also used a *masquerade strategy* to enhance their shop's image (Jensen and Roy, 2008). This strategy highlights a product's merits while downplaying its shortcomings by pretending it "is something different than what it really is" (Davidson, 2003, p.123).

By insisting their loans represented a normal economic transaction, pawnbrokers depicted their industry as promoting ethical consumption and ethical production. Because mainstream financial institutions lacked economic incentives to grant such loans, pawnbrokers defended their shops as a *necessary evil* for aiding impoverished Chinese desperate for money to support their family or develop a small business. Hence, pawnshops offered economic help and convenience to borrowers while embracing the Chinese value *local friends and local acquaintances are precious* (Xiangli Xiangqin), which fostered positive local relationships and ensured repeat patronage. In response to negative impressions and the social values that underscored them, pawnbrokers redefined the origin, function, and motivation for pawnshops.

*Positive origin.* Companies may use storytelling to improve their image by shaping the ethical situation, which contains the meanings, context, and interpretations of business behaviors (Brenkert, 2008, p.193). Pawnbrokers concocted positive origin stories to ameliorate people's negative attitudes toward pawnshops. Similar to Buddhist temples (Yang, 1950), where monks extended direct grants and low-interest loans, pawnshops offered financial aid to poor people. This philanthropic origin story conferred business legitimacy. Another positive origin story linked Chinese pawnshops to Fu Shan (Wang, 1964), a national hero who relied on pawnshops to fund his overthrow of the despotic Qing government.

*Positive function.* Pawnbrokers insisted their shops performed positive economic, social, and ethical functions.

- **Economic.** Pawnbrokers hailed their shops as *grass root financial institutions* for helping poor people secure loans conveniently (Chang and Qian, 1995; Liu, 2016; Qu, 2007; Sun, 1999; Wang, 1964).
- **Social (honor the family (*Guangzhong Yaozhu*)).** Marketing in traditional China boosted economic interests and family-centered goals. The successful operation of a pawnshop increased the owner's and his family's social status (Liu and Wang, 2002). Hence, pawnbroking was a respectable business.
- **Ethical.** Like many Chinese businesspeople, many Chinese pawnbrokers promoted social responsibility by hiring family members, relatives, friends, and other community members (Huang, 2007; Peng, 1958; Wu, 1984).

*Build public image.* Modern companies use philanthropy and corporate social responsibility to boost social legitimacy (Burlingame and Frishkoff, 1996; Saiia et al., 2003; Szócs et al., 2016). Similarly, Chinese pawnbrokers' actions enhanced their industry's image; for example, Huizhou pawnbrokers offered low interest rates (i.e., 1% to 2% monthly), extended grace periods for redeeming collateral at no additional cost, financed local educational and healthcare institutions, donated food to famine or flood victims, and donated money for local community improvement (Sun, 1999; Wang, 1964; Wang, 1999; Zhang, 2008). These actions encouraged a positive evaluation of pawnshops and a positive long-term relationship between pawnshops and local communities, meaning pawnbrokers encountered less resistance and more cooperation for investing in pawnshops or other businesses.

*Improve social image via endorsements.* In addition to close government affiliation, pawnbrokers invited famous politicians, popular actors, widely acclaimed novelists, renowned businessmen, highly respected physicians, local gentlemen (*Xiangshen*), and other celebrities to endorse pawnbroking (Chang and Qian, 1995; Wang, 1964). These endorsements signaled that pawnbrokers enjoyed good relationships (*renyuan*) with important people, implying

pawnshops and their financial services could be trusted.

*Advance socially preferred values.* Through their managers, companies as *agents* can exercise moral judgments and make moral decisions (Brenkert, 1995). Pawnbrokers did not merely respond passively to social pressures; instead, they reinterpreted well-entrenched social values that drove people's previously negative attitudes about pawnshops. In particular, pawnbrokers adhered to *Yi* (loyalty, responsibility, and social harmony) when pursuing *Li* (material interests). Adherence to this dyad somewhat conforms to the Hunt-Vitell ethics model's dual deontological and teleological perspectives (Hunt, 2006; Hunt and Vitell, 1986).

Popular conventional Chinese values were adopted to create a preferred value mix for Chinese pawnshops. Those values included loyalty (*Zhong*), filial piety (*Xiao*), deference (*Jing*), honesty (*Chen*), benevolence (*Ren*), trustworthiness (*Xing*), and personal allegiance (*Yi*). For example, pawnbrokers and their employees idolized Guan Gong (Sun, 1999), a historical figure widely praised for his loyalty to leaders (*Zhong*) and allegiance to friends (*Yi*)—two elements essential to successful Chinese business. A better image also relied on adherence to honesty (*Chen*). Specifically, a *Chen* pawnbroking transaction entailed goodwill, complete transparency, and trustworthy information. Advocating these social values legitimized pawnbroking.

To boost internal identification and professional pride, pawnbrokers—especially from Shanxi and Huizhou—professed the pursuit of economic prosperity via legal and moral means (followed *Da Dao*) was respectable (i.e., in accord with orthodox Confucian doctrine (1960)) and a pawnbroking career provided an entrée to achieving personal goals (Liu and Wang, 2002). Huizhou pawnbrokers advocated pawnbroking jobs as a backdoor for young people who wanted a government job but failed the civil service exam (Feng, 2012). Embracing a Taoist mindset (*JieMan*), which entails modesty and selflessness, spurred pawnbrokers to construct a managerial style that discouraged greed (Li, 2005). To encourage employee loyalty, pawnbrokers offered direct subsidies (Feng 2012).

## Improving Reputation Institutionally

Like many companies, Chinese pawnshops were not passive recipients of a public image; rather, they relied on established professional or social institutions and practices to reshape beliefs about their services and industry values (Marchand, 2001).

*Professional associations.* Pre-1949 Chinese businessmen often relied on professional associations to extend their business legitimacy and protect employees' careers (Xu, 2001). These associations hired (1) news reporters to propagate a positive image as a legal and moral industry, and (2) public relations people and lawyers to deal with law enforcement entities when stolen goods were an issue (Liu, 1995; Sun, 1999; Wang, 1964). Hence, pawnshops established associations to enhance their reputation collectively via self-regulation (Luo, 1979; Wu, 1984).

Although such associations offered powerful assistance, some pawnshops failed to join (1) to avoid the membership fee, (2) to avoid unfriendly association leaders, or (3) due to distrust of leaders from certain Chinese regions (Sun, 1999). People generally judged unaffiliated pawnshops as economically weaker and less ethical (Wang, 1964).

*Professional rules and codes.* Pawnshop associations adopted professional rules and codes to regulate pawnshop and pawnbroker behavior. These rules and codes, meant to ensure voluntary compliance with business conduct consistent with mainstream Chinese moral values, were essential to indoctrinating new industry recruits.

Pawnshops coined professional jargon and written formulas only apprehensible to employees (Huang, 2006; Liu, 2016; Wang, 1964; Wu, 1984). Complex jargon increased industry entry barriers while obscuring shops and their borrowers in a shroud of mystery, which attracted new clientele. In addition, meanings implied by these rules and codes advanced a business climate essential for increasing employee identification with the industry.

*Positive image through Guanxi.* *Guanxi* is broadly defined as "a close and pervasive interpersonal relationship key to buyer-seller transactions in

China" (Zhou, Hyman, and Leonhardt, 2017, p.189). It facilitates positive outcomes by lubricating business relationships with personal social connections. The unique role of *guanxi* in China's social and business life is well-known (Ou et al., 2014).

Pawnbrokers relied on word-of-mouth to spread positive evaluations. They knew (1) hostile gossip could kill businesses situated in a culture that maintained social stability via local community building, and (2) positive community interactions would facilitate investments in other businesses because *Guanxi* fostered the social reciprocity that sustained special favors and obligations (Lee and Dawes, 2005). *Guanxi* helped consolidate personal trust (Huang, 2007) and improve community relationships (Liu et al., 2013); it largely defined the scale, scope, and process of business transactions (Pita et al., 1999). To develop positive *Guanxi* within their local communities, every spring Huizhou pawnbrokers treated local gentlemen (*Xiangshen*) to lavish banquets (Feng, 2012).

Pawnbrokers used local newspapers to build a reputation for social conscience. They often invited reporters to attend pawnshop-sponsored charity functions. Especially during the 1930s—when China was under increasing pressure from Japan and nationalism became a major news theme—pawnshops aligned with nationalistic advocacy groups to mobilize support for anti-imperialistic movements, often via local newspaper declarations (Chang and Qian, 1995).

*Government assistance or sponsorship.* Unlike modern Western lobbying as a way to protect self-interests, pre-1949 Chinese businessmen bribed officials charged with judging the legality or appropriateness of business behaviors. The context dependence of bribery morality (Velasquez, 2010) applies to Chinese pawnbrokers. In pre-1949 China, bribes were considered ethical, as they reduced abuses by local officials. Thus, some Chinese eulogized bribery as a pragmatic mechanism for protecting or extending their business interests.

Former national presidents, provincial governors, and top military leaders were involved directly or indirectly in pawnbroking from the late 1910s until 1949 (Wang, 1964). Pawnshop owners often invited retired or incumbent officials with ongoing policy influence (through former students or

subordinates) to serve as nominal managers. These officials invested in pawnshops and received an annual bonus. In return, they ensured pawnshops received a preferred tax rate and avoided legal hassles. More important in a collective society (Hofstede, 1996), the close affiliation with officials inspired people's trust in pawnshops.

*Diversified investment.* Many pawnshops diversified by investing in agricultural production, industrial manufacturing, banking services, healthcare, and education (Huang, 2007; Li, 2002; Peng, 1958; Skully, 1994; Sun, 1999; Wang, 1964; Wang, 1999; Zhang, 2008). This arrangement was meant to minimize potential economic risks and enhance beliefs about financial stability. Diversification reinforced a morally upstanding image for pawnbrokers; they behaved like other Chinese pursuing business interests (Huang, 2007) and owning a pawnshop signified the owner's wealth (Wang, 1964).

*Good neighborhood locations.* Pawnshops located their main business or subsidiaries in concession areas (*ZuJie*) managed by foreign governments under Sino-foreign treaties implemented after the first Opium War (post-1842) (Cochran, 1999; Spence, 1990), implying political protection or financial assistance from foreign sources (Wang, 1964). Receiving approval to operate in these areas was an intangible asset sought by many Chinese companies.

Large pawnshops would expel *bad apples* from the industry. Infamous pawnshops—especially smaller ones (Sun, 1999; Wang, 1964)—that earned a bad reputation for higher interest rates, shorter maturity dates, and other exploitative terms, were expelled from the pawnbroking association and precluded from future assistance by other pawnshops. Self-regulation stressing disassociation with immoral pawnshops created a collective image of an industry with a social conscience.

## Conclusion

By relying on marketing strategies meant to enhance their image and business legitimacy, pre-1949 Chinese pawnshops flourished by serving underprivileged and privileged Chinese, whose social tastes and goals differed (Stillerman, 2015). Poor Chinese were mainly prevention focused (i.e., pursued their security

and safety goals) and needed pawnbroking to improve their daily lives, whereas rich Chinese were mainly promotion focused (i.e., enhanced their economic interests or social achievements). Neither *hard marketing strategies*—such as improving product quality or cutting price—nor overcoming the dire economic environment in pre-1949 China ensured their success. Instead, *soft marketing strategies*—such as social value advocacy, celebrity endorsement, and effective storytelling—helped establish the legitimacy and ethicality of Chinese pawnshops.

Implications for companies or industries with an unfavorable image exist. A company's marketing strategy should focus on more than its financial performance (Bharadwaj, 2015). Other worthwhile long-term marketing goals include enhancing corporate reputation, corporate social responsibility, and community relationship building (Liu et al., 2013; Liu and Ko, 2014). One moral of this pawnbroking story is a discredited industry can improve its image and business legitimacy through effective storytelling. Offering customers more favorable terms can counter a company's historically greedy image, and institutionalizing certain values can foster a positive image. Through self-regulation, professional associations can maintain a positive industry image. Advocating popular social values can mobilize social support. Developing good relationships with government agencies can facilitate business transactions.

The practical implications of this research are twofold. Certain *soft strategies* adopted by pre-1949 Chinese pawnbrokers may help the current Chinese pawnbroking industry, which achieved business legitimacy when China relegalized it during the late 1980s (S2 in Figure). Learning from historical lessons via pure historical (S1) or counterfactual (S3) analyses can help sidestep mistakes in addressing similar problems. More broadly, evaluating historical strategies (S1) implies that deploying *hard strategies* is not the only way a socially discredited industry can enhance its image. Rather, industries can ameliorate their socially discredited image by deploying *soft strategies*. Institutionalized arrangements—such as professional associations, professional codes and jargons, personal *Guanxi* and community relationship building, and government sponsorship—can improve the reputation and brand equity of a socially discredited industry.

## References

- Bharadwaj, J. (2015), "Developing new marketing strategy theory: Addressing the limitations of a singular focus on firm financial performance", *AMS Review*, Vol. 5, No. 3, pp. 98-102.
- Bouman, F.J.A. and Houtman, R. (1988), "Pawnbroking as an instrument of rural banking in the third world", *Economic Development and Cultural Change*, Vol. 37, pp. 69-89.
- Bowie, N.E. (2010), "Organizational integrity and moral climates", in Brenkert, G.G. and Beauchamp, T.L. (Eds.), *The Oxford Handbook of Business Ethics*, Oxford University Press, Oxford, UK, pp. 701-724.
- Brenkert, G.G. (1995), "The environment, the moralist, the corporation and its culture", *Business Ethics Quarterly*, Vol. 5, No. 4, pp. 675-697.
- Brenkert, G.G. (2008), *Marketing Ethics*, Wiley-Blackwell Press, Hoboken, NJ.
- Burlingame, D.F. and Frishkoff, F.A. (1996), "How does firm size affect corporate philanthropy?" in Burlingame, D.F. and Young, D.R. (Ed.), *Corporate Philanthropy at the Crossroads*, Indiana University, Bloomington, IN, pp. 86-104.
- Cai, H.B., Zhou, L.A., and Wu, Y.Y. (2008), "The clan rule, the faith of merchants and the management of merchant organizations: A comparative study on merchants of Anhui province and Shanxi province in the period of the Ming and Qing dynasty", *Management World*, No. 8, pp. 87-99, 118.
- Caskey, J.P. (1996), *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*, Russell Sage Foundation, New York, NY.
- Chang, M.Q. and Qian, C.T. (1995), *Modern Chinese Pawnbroking Business*, Chinese Literature and History Press, Beijing, China.
- Cochran, S. (1999), "Commercial culture in Shanghai, 1900-1945: Imported or invented? Cut short or sustained?" in Cochran, S. (Ed.), *Inventing Nanjing Road: Commercial Culture in Shanghai, 1900-1945*, Cornell University Press, Ithaca, NY, pp. 3-18.
- (2000), *Encountering Chinese Networks: Western, Japanese, and Chinese Corporations in China, 1880-1937*, University of California Press, Berkeley, CA.
- Confucius and his disciples (1960), *The Analects of Confucius*, Zhonghua Shuju Press, Beijing, China.
- Davidson, D.K. (2003), *Selling Sin: The Marketing of Socially Unacceptable Products*, Praeger, Westport, CT.
- De George, R. (1993), *Competing with Integrity in International Business*, Oxford University Press, Oxford, UK.
- Epstein, E.M. and Votaw, D. (Eds.) (1978), *Rationality, Legitimacy, Responsibility*, Good-year Publishing Company, Inc., Santa Monica, CA.
- Feng, Y.J. (2012), "The pawnshops of eighteenth-century Huizhou merchants: The pawnshops of the Wu family from Mingzhou, Xiuning", *Bulletin of the Institute of Modern History, Academia Sinica*, Vol. 78, pp. 29-86.
- Feng, Z.J. (2017), "The management of Zhiku (pawnshop) and the pledging of artworks in Ming Dynasty", *Journal of Southeast University (Philosophy and Social Sciences)*, Vol. 19, No. 4, pp. 139-145.
- Fukuyama, F. (1995), *Trust: Social Virtue and the Creation of Prosperity*, The Free Press, New York, NY.
- Gautier, A. and Pache, A-C. (2015), "Research on corporate philanthropy: A review and assessment", *Journal of Business Ethics*, Vol. 126, No. 3, pp. 343-369.
- Goodman, B. (1995), *Native Place, City, and Nation: Regional Networks and Identities in Shanghai: 1853-1937*, University of California Press, Berkeley, CA.
- Goodpaster, K.E. (2010), "Corporate responsibility and its constituents", in Brenkert, G.G. and Beauchamp, T.L. (Eds.), *The Oxford Handbook of Business Ethics*, Oxford University Press, Oxford, UK, pp. 126-157.
- Green, R.M. and Donovan, A. (2010), "The

- methods of business ethics," in Brenkert, G.G. and Beauchamp, T.L. (Eds.), *The Oxford Handbook of Business Ethics*, Oxford University Press, Oxford, UK, pp. 21-45.
- Hofstede, G. (1996), *Cultures and Organizations, Software of the Mind: Intercultural Cooperation and its Importance for Survival*, McGraw-Hill, New York, NY.
- Huang, J.H. (2006), *The History of Chinese Pawnbroking Industry*, Shanxi Economy Press, Taiyuan, China.
- Huang, L.M. (1983), "On pawnshops", *The Analects of Anhui Literature and History Materials*, No. 13, pp. 117-121.
- Huang, R.Y. (2007), *Broadening Historical Horizons*, Shanlian Press, Beijing, China.
- Hunt, S.D. (2006), "The general theory of marketing ethics: A revision and three questions", *Journal of Macromarketing*, Vol. 26, No. 2, pp. 143-153.
- and Vitell, S. (1986), "A general theory of marketing ethics", *Journal of Macromarketing*, Vol. 6, No. 1, pp. 5-16.
- Jensen, M. and Roy, A. (2008), "Staging exchange partner choices: When do status and reputation matter?" *Academy of Management Journal*, Vol. 51, No. 3, pp. 495-516.
- Kanter, R.M. (1999), "From space change to real change: The social sector as beta site for business innovation", *Harvard Business Review*, Vol. 77, No. 3, pp. 122-132.
- Lee, D.Y. and Dawes, P.L. (2005), "Guanxi, trust, and long-term orientation in Chinese business markets", *Journal of International Marketing*, Vol. 13, No. 2, pp. 28-56.
- Liang, R.Z. (2016), "Between the public and commercial interests: Study on public deposit in pawnshops in Qing Dynasty", *Chinese Social and Economic History Research*, Vol. 2, pp. 45-50.
- Li, J.Z. (2002), "The decline of pawnbroking industry from the 1920s to 1940s—The Yangtze Delta area as a center", *Chinese Economic History Study*, Vol. 4, pp. 42-51.
- Li, E. (Laozi) (2011), *Dao De Jing*, Yuelu Press, Changsha, China.
- Liu, B.Q. (1983), "The pawnbroking business in late Qing Anhui", *The Analects of Anhui Literature and History Materials*, No. 13, pp. 112-116.
- Liu, G., Eng, T.Y., and Ko, W.W. (2013), "Strategic direction of corporate community involvement", *Journal of Business Ethics*, Vol. 115, No. 3, pp. 469-487.
- and Ko, W.W. (2014), "An integrated model of cause-related marketing strategy development", *AMS Review*, Vol. 4, No. 3-4, pp. 78-95.
- Liu, J.S. and Wang, R.F. (2002), "Reasons for the development of Shanxi pawnbrokers since the Qing Dynasty", *Chinese Economic History Study*, Vol. 1, pp. 48-56.
- Liu, Q.G. (1995), *The History of Chinese Pawnbroking Institutions*, Shanghai Ancient Works Press, Shanghai, China.
- , Yan, H.Z., and Zhang, X.Q. (2012), *Comparative Study of Jinshang (Shanxi Businessmen) and Huishang (Huizhou Businessmen) during Ming and Qing*, Taiyuan, China: Shanxi Economy Publishing House.
- Luo, B.Q. (1979), "The distribution and professional associations of modern Chinese pawnbroking business", *Shihuo* (The Reassumed Edition), Vol. 8 (2&3).
- Mahoney, J. and Rueschemeyer, D. (2003), *Comparative Historical Analysis in the Social Sciences*, Cambridge University Press, Cambridge, UK.
- Marchand, R. (2001), *Creating the Corporate Soul: The Rise of Public Relations and Corporate Imagery in American Big Business*, University of California Press, Berkeley, CA.
- McCracken, G. (2005), *Culture and Consumption II: Markets, Meaning, and Brand Management*, Indiana University Press, Bloomington, IN.
- Martin, R.L. (2002), "The virtue matrix: Calculating the return on corporate responsibility", *Harvard Business Review*, Vol. 80, No. 3, pp.

- 68-75.
- Ou, C.X., Pavlou, P.A., and Davison, R.M. (2014), "Swift guanxi in online marketplaces: The role of computer-mediated communication technologies", *MIS Quarterly*, Vol. 38, No. 1, pp. 209-224.
- Peng, X.W. (1958), *The History of Chinese Currency*, Shanghai People's Press, Shanghai, China.
- Petersen, J.A., Kushwaha, T., and Kumar, V. (2015), "Marketing communication strategies and consumer financial decision making: The role of national culture", *Journal of Marketing*, Vol. 79, No. 1, pp. 44-63.
- Qu, Y.B. (2007), *History of Chinese Pawnbroking*, Shenyang Press, Shenyang, China.
- Ralston, D.A., Holt, D.H., Terpstra, R.H. and Kai-cheng, Y. (1995), "The impact of culture and ideology on managerial work values: A study of the United States, Russia, Japan, and China", *Academy of Management Journal* (Best Paper Proceedings), pp. 187-191.
- Saia, D.H., Carroll, A.B. and Buchholtz, A.K. (2003), "Philanthropy as strategy when corporate charity 'begins at home'", *Business and Society*, Vol. 42, No. 2, pp. 169-201.
- Skully, M. (1994), "The development of the pawnshop industry in East Asia", available at <http://citeseerx.ist.psu.edu/viewdoc/citations?doi=10.1.1.472.5477> (accessed on 22 September 2017).
- Smith, C. (1994), "The new corporate philanthropy", *Harvard Business Review*, Vol. 72, No. 3, pp. 105-116.
- Spence, J.D. (1990), *The Search for Modern China*, W.W.W. Norton & Company, New York, NY.
- Srnka, K.J. (2004), "Culture's role in marketer's decision making: An integrated theoretical framework", *Academy of Marketing Science Review*, Vol. 1, pp. 1-34.
- Stillerman, J. (2015), *The Sociology of Consumption: A Global Approach*, Polity Press, Cambridge, UK.
- Sun, X.Y. (1999), "Pawnbroking industry in Shanghai", in Lu, J.X. (Ed.), *The 20th Century Literature and History Documents of Shanghai*, Shanghai Bookstore Press, Shanghai, China, pp.6-56.
- Szöcs, I., Schlegelmilch, B.B., Rusch, T., and Shamma, H.M. (2016), "Linking cause assessment, corporate philanthropy, and corporate reputation", *Journal of the Academy of Marketing Science*, Vol. 44, No. 3, pp. 376-396.
- Velasquez, M. (2010), "Corruption and bribery", in Brenkert, G.G. and Beauchamp, T.L. (Eds.), *The Oxford Handbook of Business Ethics*, Oxford University Press, Oxford, UK, pp. 471-500.
- Walker, K. (2010), "A systematic review of the corporate reputation literature", *Corporate Reputation Review*, Vol. 12, No. 4, pp. 357-387.
- Wang, S.H. (1999), "The rise and decline of Huizhou pawnbrokers in Min and Qing Dynasties", *Qing History Study*, Vol. 2, pp. 62-70.
- Wang, Z.S. (1964), "Memoirs on the forty-year working experiences in Tianjin pawnbroking industry", *The Analects of Literature and History Materials*, Vol. 53, pp. 32-52.
- Wu, Z.H. (1984), "Business associations and clans in old Shanghai", in Shanghai History and Literature Museum and Advising Council of the Shanghai Government (Eds.), *Shanghai Local History Materials*, Shanghai Academy of Social Sciences Press, Shanghai, China, Vol. 3, pp. 102-109.
- Xu, X.Q. (2001), *Chinese Professionals and the Republican State: The Rise of Professional Associations in Shanghai, 1912-1937*, Cambridge University Press, Cambridge, UK.
- Yang, L.S. (1950), "Buddhist monasteries and four money-raising institutions in Chinese history", *Harvard Journal of Asiatic Studies*, Vol. 13, No. 1/2, pp. 174-191.
- Zhou, W., Hyman, M.R., and Leonhardt, J. (2017), "Examining online Chinese buyer-seller relationships: Understanding e-Guanxi", in Krey, N. and Rossi, P. (Eds.), *AMS Conference Proceedings*, Academy of Marketing Science, Cullowhee, NC, pp.189-190.

**Figure**  
**'Bottles' (Contexts) and 'Wines' (Marketing Strategies)**  
 Bottles

		Old	New
Wines	Old	S1: Old contexts and old business strategies <i>(Pure historical analysis)</i>	S2: New contexts but old business strategies <i>(Practice-oriented analysis)</i>
New		S3: Old contexts but new business strategies <i>(Counter-factual analysis)</i>	S4: New contexts and new business strategies <i>(Different research domains analysis)</i>