

GUANXI



The *Art* of Finesse and Relationship Building
When Conducting Business in China

by franco gandolfi & corné j. bekker

For more than two decades, economic growth rates in China continue to thrive. A multitude of foreign firms are entering this booming economy and taking advantage of the existing environmental conditions such as the availability of low cost of labor and access to the world's largest population.

However, amidst this lure of economic prosperity, the primary dilemma exists in the cultural differences these companies encounter when conducting business in China. One of these differences is the concept of *guanxi*. In order for foreign businesses to succeed in China, it is critical for them to develop a deep understanding of the notion of *guanxi*, its impact on establishing relationships both within and outside a firm and the implications for good managerial and business practice.

The Confucian Roots of Guanxi

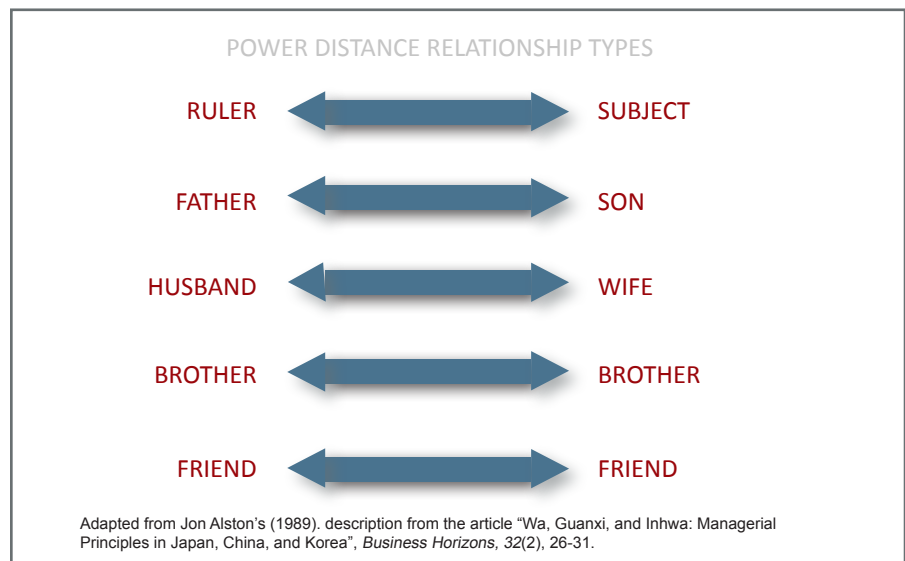
Guanxi is an intrinsic aspect of the ancient Chinese culture. While studied in great depth, researchers from around the globe have tried to define and conceptualize the notion of *guanxi*, translating it as personal connections or relationships. Despite this seemingly simple definition, the implications are profound and dynamic within the Chinese culture.

Guanxi is a major force in Chinese society because of its ancient cultural roots in Confucianism, which emphasizes the importance of interdependence and social connections. Since the Han dynasty (BC 206 - AD 220), Confucianism has held a significant position in the Chinese society and continues to influence many facets of modern-day life in China. Noted scholars John Dunning and Changsu Kim suggest that the Chinese see themselves as being entrenched within a social system, where harmony is a valued part of human well-being. This is reinforced in the Chinese ying-yang symbol which represents mutually reinforcing but harmonious traits.

The Chinese live in an intricate mesh of

personal and social inter-connections. Culturally, people view themselves as interdependent of each other and embedded in the surrounding social context. To that end, Confucian ethics encourages individuals to respect patriarchs and elders – likely to a greater extent than in other cultures. It also stresses the importance of an individual's place in the hierarchy of social relationships.

influence in *guanxi* is the act of constructing an established connection to receive potential favors through personal relationships. The nature of these relationships depends on the experience of those involved in building the relationships. Those with more experience will have a better grasp of defining and enriching the relationships and developing those relationships



The basis of this concept is described by scholars as power distance. Power distance refers to the gap that is accepted when power is unequally distributed between the powerful and less powerful. The more a society accepts inequality and is respectful of authority, the greater the power distance in certain relationships is likely to be.

Jon Alston explains these types of relationships within a social hierarchy as ruler-subject, father-son, husband-wife, brother-brother, and friend-friend. With these relationships central to the Chinese culture, *guanxi* links two persons of unequal rank so that the weaker partner can call for favors which need not be equally reciprocated. This generates the expectation that those with a powerful position help those with inferior positions. In return for their generosity they receive face and a positive reputation. Therefore, an important implication of the Confucian

will be strongly dependant on the institutional infrastructure of a society.

Core Traits of Guanxi

Taking into consideration the root influence of *guanxi*, it is feasible to identify its core traits. *Guanxi* is a utilitarian concept in that it connects two individuals together based on the exchange of favors rather than based on sentiment. Interestingly, while friendship is preferable, it is not a necessary prerequisite for *guanxi* to take place; just as a *guanxi*-related tie that is no longer viewed as positive, can be easily broken.

Guanxi is also reciprocal; it implies reciprocity in exchange for favors. The *guanxi* relationship is fueled by continual favors. It works when one repayment merits another favor by the opposing party. This reciprocity maintains that the favors unequally benefit the weaker partner and is not necessarily equitable.

In essence, key ingredients of guanxi include trust, honesty, reciprocity, and social status. It is an intangible asset in that those who share a guanxi commitment maintain an informal and unwritten code of trust, forbearance, and equity. This guanxi commitment is reinforced by an informal system of social standing and respectability that can be seriously damaged by violating the core principles of guanxi.

Guanxi and the Christian Concept of Perichoretic Hospitality

Chinese culture prides itself on its hospitable character and the term *qingke* (literally guest hospitality) is used as an overt strategy of guanxi in business. It also has comparable traits and characteristics with the Christian theological and ethical concept of perichoretic hospitality. The Christian concept of hospitality finds its origins in the ancient Mediterranean call to hospitality in the Hebrew Scriptures (Leviticus 19:33-34) that reminded Israel that she was once a stranger and sojourner in need of hospitable relationships.

The early church reported that Jesus preached a message of radical hospitality to all (Luke 14) and thus made hospitality a basic virtue for leadership (1 Timothy 3:2). Hospitality in the Christian tradition is fundamentally a welcoming and open stance towards the other in his or her otherness and finds its deepest expression in the loving and hospitable relationship of the Triune God (John 14:11).

Scholar and author Paul Fiddes notes that in the early Church tradition the Greek verb *choreo* (the English word choreography comes from this word) and the noun *perichoresis* were used by theologians to describe the loving and hospitable relationship (sometimes described as a dance) between the triune members of the Godhead and then ultimately as an ethical ideal. Perichoretic hospitality, rooted in a devotional and mimetic relationship with God, is a call to form social relationships with others

by emphasizing the need for openness to others through hospitable acts without forfeiting personal identity.

Even though contemporary China is characterized by its vast size and large cultural variation, national pride exists in the complex systems of hospitality seen in the use of the term *liyizhibang* by Chinese to describe their country as a “nation of ritual and etiquette”.

The ancient Christian concept of perichoretic hospitality offers a cultural and religious bridge for Christian Westerners working within a contemporary Chinese

business environment. This biblical call to form social relationships, expressed in acts of *qingke*, can assist occidental organizations and leaders to honor the status of Chinese business leaders, gain access to important social groups and maintain organizational relationships. Perichoretic hospitality calls business leaders working in China to not only imitate the “loving dance” between the triune members of the Godhead but to seek to follow in the example of Christ that willingly came in the form of a human (Philippians 2:5-11) by honoring the ancient Chinese systems of hospitality in guanxi and *qingke*.

Using Guanxi to Establish Corporate Reputation in China

Guanxi takes on special significance in Chinese society. Constructing and maintaining guanxi is a common preoccupation for entrepreneurs, managers, officials, and even university students. While some suggest that guanxi is a cultural phenomenon that is deeply rooted in the Chinese culture with its high value placed on harmony and hierarchy, others maintain the Chinese have managed to turn guanxi into a

carefully calculated art.

As demonstrated by the popular saying in Chinese that translates “Who you know is more important than what you know”, guanxi-based business practices permeate the Chinese culture and are capable of facilitating exchange in the Chinese business community. Guanxi is ultimately a form of social capital that develops between two persons through

a process of reciprocal exchange. It is more than the exchange of gifts to ensure future favorable business exchange. For example, many Western business people

endanger themselves by exaggerating the importance of gift-giving in a guanxi relationship. This aspect of a guanxi relationship, when abused, comes close to being perceived as “meet and wine friends”, a Chinese metaphor for mistrust.

In another example, an Australian university tried to build social capital with its new Chinese partner and relied too heavily on gift giving, which subsequently strained the relationship between the institutions.

Consequently, the core of guanxi is the cultivation of long-term relationships. Chinese society differs from other cultures in that guanxi remains always active and plays a central role in daily social and business realms. Thus, the development and nurturing of guanxi necessitates a long-term commitment and outlook for the strategic business partners.

Using Guanxi to Establish Relationships

Another aspect of guanxi to note is that it is transferable between parties. This can be exemplified in a relationship with three individuals: A, B, and C. If A has guanxi with B, and B is a friend of C, B





would be able to introduce A to C. The extent to which this *guanxi* is transferable depends on the satisfaction that B feels about his *guanxi* with A and C. Here, *guanxi* is established when one party does something for another party. This develops an unpaid obligation, which is called *renqing* and constitutes the first step in the development of a *guanxi*-based relationship. Even before a first exchange can take place, there must be a common bond between the two individuals involved in the exchange. The bond of commonality is established with a third party that is attached to both party A and B. If commonality exists between two parties, it does not guarantee future *guanxi* exchange. However, the link of commonality does meet the minimal criteria to establish an initial *guanxi*-based relationship. After the commonality is established, the exchange between the parties can begin. The goal of *guanxi*-related exchange is not to exchange favor for favor. Rather, good *guanxi* is established by expanding the time and repayment and exchanging favors with increased value.

Although *guanxi* is a relationship, it does not involve a great deal of emotion, which is another common misconception by

Westerners. Xiao-Ping Chen and Chao Chen, in their article “On the Intricacies of *Guanxi*” establish a distinction between *ganqing*, the degree of emotional understanding associated with a particular connection, and *jiaoqing*, the degree of obligation and indebtedness that comes from a connection. They contend that the accumulation of *ganqing* and *jiaoqing* will increase the closeness between two *guanxi* parties. Therefore, from a business perspective, *guanxi* in this context is likely to be purely instrumental and utilitarian rather than emotional in nature.

Trust also plays a less insignificant role in *guanxi*, while assurance is key to healthy *guanxi* relationships. Trust exists where one party believes the other party will not act opportunistically regardless of the potential payoff of opportunistic actions. Assurance exists where one party believes the other will not act opportunistically due to external constraints or an expectation of future exchange — a driving force behind the formation of *guanxi*. Therefore, again *guanxi* is not an emotionally driven force. As such, attachment has little to do with initial formulation and continued relations.

...MANY WESTERN BUSINESS PEOPLE ENDANGER THEMSELVES BY EXAGGERATING THE IMPORTANCE OF GIFT-GIVING IN A *GUANXI* RELATIONSHIP. THIS ASPECT OF A *GUANXI* RELATIONSHIP, WHEN ABUSED, COMES CLOSE TO BEING PERCEIVED AS “MEET AND WINE FRIENDS”, A CHINESE METAPHOR FOR MISTRUST.

Two researchers provide support for the instrumental and utilitarian nature of *guanxi*. They found that the more sophisticated managers in China are skilled at manipulating the exchange of favors, benefits and information with their Chinese business counterparts. Less experienced foreign managers perceive *guanxi* in a more Western interpretation based on emotions and personal characteristics. The consequences for not following the proper procedure for *guanxi* can be dire. Failure to follow the rules of reciprocity and equity in a *guanxi*-based relationship is likely to result in the loss of face. Face is a key element in the development and maintenance of *guanxi*. The concept of face, though highly abstract, is treated by the Chinese as something that is tangible.

Face or reputation is an overall quality or character as perceived by a society. It is also a place of public esteem or regard. *Guanxi* and reputation both serve as a means to ensure that individuals will act justly in their business dealings. When looking at *guanxi* networks and reputation, several aspects should be considered.

First, a firm needs to be able to build its reputation by means of a multitude of organizational participants engaging in *guanxi*. In other words, while *guanxi* networks are mainly developed between individuals and are more of a personal relationship, reputation is more an impersonal, general relationship that a particular firm holds. Through the use of *guanxi*, an organization can build up its corporate reputation.

For instance, a Swiss manufacturer with no established networks and *guanxi* entered China by means of a joint-venture. Having made a long-term commitment to China, the Swiss firm spent the first few years building a reputation of a good corporate citizen in China and investing in the local community. In turn, the Swiss firm built credibility, trust, and *guanxi* with the Chinese firm. As a result, the Swiss corporation was able to leverage its newly developed *guanxi* with its Chinese partner

and to apply it to its business practices and dealings with other Chinese entities. Today, the firm and its joint-venture partner are a well-recognized, well-established, thriving business that many Chinese consider a local business.

Economic Hindrances of Guanxi

With the many positive aspects to guanxi, there is a negative element to consider. Business-to-business guanxi enables a firm to develop relationships with suppliers and to cement the reputation of organizations. However, there is another part to guanxi that is the business-to-government guanxi. This particular aspect has the capacity to be destructive in that it can cause corruption within the Chinese economic and judicial systems. Corruption is an impairment of integrity, virtue, or moral principle which can be found in all systems. Not surprisingly, China is no exception.

Corruption is rampant in the Chinese economy for two main reasons. First, by Western standards, China has a weak corporate governance system. This system is still in its developmental stages and represents a significant change to the old way of life. There are many loopholes, weaknesses, and ambiguities within their system and people are exploiting those for their own good. Thus, it has become a breeding ground for corruption. Furthermore, the prevalence of corruption in the Chinese economy results from traditional systems and methods. The primary moral guide that the Chinese people embraced and adhered to for centuries was Confucian ethics. The law was thought of as only secondary to Confucian ethics and most Chinese people did not pay a lot of attention to it. Family and relationships were the center of the Chinese way of life where guanxi permeated all aspects within the culture.

Today, while the law has been re-defined in the wake of WTO membership, the legal system continues to learn about its exact role, interpretation and enforcement. It is not the business-to-business guanxi relationships that



cause the corruption but the business-to-government guanxi relationships. Some use their business-to-government connections to circumvent laws and regulations.

It must be understood that until the corporate governance and legal systems fill in the weak areas within the notion of guanxi, corruption will continue to permeate the entire Chinese society. As a natural consequence, this will hinder the economic development of China.

Concluding Thoughts

Clearly, guanxi plays a pivotal part in the business environment in China. If foreign firms wish to succeed in China, a strong understanding of guanxi and the way that it influences the business environment is paramount. The biblical concept of perichoretic hospitality can provide an ethical and motivational base for occidental leaders that want to engage guanxi through acts of guest hospitality (ginke). Yet, foreign firms must take time to understand the acceptable practice of gift giving to avoid critical mistakes while thriving in this rapidly growing and expanding economy.

Dr. Franco Gandolfi serves as the MBA program director and associate professor of human resources management (HRM) in the School of Global Leadership & Entrepreneurship at Regent University. He holds degrees in Commerce and Adult Education from the University of Sydney and doctoral qualifications in Business Administration from Southern Cross University, Australia. Dr. Gandolfi consults with international corporations and is also an accomplished researcher with published articles in numerous international journals. His recent book, *Corporate Downsizing Demystified: A Scholarly Analysis of a Business Phenomenon* published by ICAFI University Press (2006) has received great acclaim. Dr. Gandolfi can be reached at fgandolfi@regent.edu.

Dr. Corné Bekker is an associate professor for the School of Global Leadership & Entrepreneurship at Regent University where he teaches in the doctoral programs and is actively involved in research on the use of biblical hermeneutics and spirituality to explore leadership. He holds degrees in Greek and Biblical Studies (B.A.), New Testament Theology (M.A.) and Biblical Studies (D. Litt et Phil.) from Rand Afrikaans University in Johannesburg. In addition, Dr. Bekker is an ordained minister and has traveled in Africa, Europe, the East and North America to present at churches, ministries, seminars and academic conferences on Christian spirituality and leadership formation. Dr. Bekker is currently completing a second doctorate in Christian Spirituality at the University of South Africa and can be reached at clbekker@regent.edu.



Would you go to any degree to make a difference?

Excellence, for some, is a way of doing business that not only accelerates company growth, but at the same time impacts the lives and potential of others. It's gratifying, profitable and reshapes the very world we live in.

Our master's and doctoral degree programs provide a unique platform for advancing leadership effectiveness and business savvy, all within a global context. Available online or on campus, these programs offer you a distinct edge in business—and *in life*.

Executive MBA
Master of Business Administration
M.A. in Strategic Foresight
M.A. in Organizational Leadership
Doctor of Strategic Leadership
Ph.D. in Organizational Leadership

regent.edu/global

757.226.4550

School of Global Leadership & Entrepreneurship
 **REGENT UNIVERSITY**
Christian Leadership to Change the World

Regent University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award baccalaureate, master's, and doctorate degrees. Contact the Commission on Colleges at 1866 Southern Lane, Decatur, Georgia 30033-4097 or call 404.679.4500 for questions about the accreditation of Regent University. Regent University is certified by the State Council of Higher Education for Virginia to operate campuses within the Commonwealth of Virginia. Regent University admits students without discrimination on the basis of race, color, disability, gender, religion or national or ethnic origin. MKT074443

- 1. Confucian Roots of Guanxi:** Dunning, J. & Kim, C. (2007). The cultural roots of Guanxi: an exploratory study. *The World Economy*, 30(2), 329-341; Jacobs, L., Guopei, G., & Herbig, P. (1995). Confucian roots in China: a force for today's business. *Management Decisions*, 33(10), 29-34; Buttery, E., & Wong, Y. (1999). The development of a Guanxi framework. *Marketing Intelligence and Planning*, 17(3) 147-154; Hofstede, G. (1991). *Cultures and Organizations: Software of the Mind*, New York: McGraw-Hill; Alston, J. (1989). Wa, Guanxi, and Inhwa: Managerial Principles in Japan, China, and Korea, *Business Horizons*, 32(2), 26-31; North, D. (2005). *Understanding the Process of Economic Change*. Princeton, NJ: University Press.
- 2. Core traits of guanxi:** Alston, J. (1989). Wa, Guanxi, and Inhwa: Managerial principles in Japan, China, and Korea. *Business Horizons*, 32(2), 26-31; Yeung, I., & Tung, R. (1996). Achieving business success in Confucian societies: the importance of guanxi (Connections). *Organizational Dynamics*, 25(2), 54-65; Luo, Y. (2000). *Guanxi and Business*. Singapore: World Scientific. Davies, H., Leung, T., Luk, S., & Wong, Y. (1995). The benefits of “Guanxi”. *Industrial Marketing Management*, 24(3), 207-14.
- 3. Guanxi and the Christian concept of perichoretic hospitality:** Seligman, S. (1999). *Chinese Business Etiquette: A Guide to Protocol, Manners, and Culture in the People's Republic of China*. New York: Warner Books; Yang, M. M. (1994). *Gifts, Favors, and Banquets: The Art of Social Relationships in China*. Ithaca, NY: Cornell University Press; McCormick, P. T. (2004). The good sojourner: third world tourism and the call of hospitality. *Journal of the Society of Christian Ethics*, 24(1): 89-104; Vosloo, R. (2004). Identity, otherness and the triune God: theological groundwork for a Christian ethic of hospitality. *Journal of Theology for Southern Africa*, 119, 69-59; Bond, M. H. (1991). *Beyond the Chinese Face: Insights from Psychology*. Hong Kong: Oxford University Press.
- 4. Guanxi in establishing corporate relationships:** Luo, Y. (2000). *Guanxi and Business*. Singapore: World Scientific; Yeung, I., & Tung, R. (1996). Achieving business success in Confucian societies: the importance of guanxi (connections). *Organizational Dynamics*, 25(2), 54-65; Standifird, S., & Marshall R. (2000). The transaction cost advantage of guanxi-based business practices. *Journal of World Business*, 35, 21-42; Luo, Y., & Chen, M. (1996). Managerial implications of guanxi-based business strategies. *Journal of International Management*, 2 (4), 293-316; Standifird, S. (2006). Using guanxi to establish corporate reputation in China. *Corporate Reputation Review*, 9, 171-178; Pye, L. (1992). *Chinese Negotiating Style*. Westport, CT: Quorum Books. Chen, X., & Chen, C. (2004). On the intricacies of the Chinese guanxi: a process model of guanxi development. *Asia and Pacific Journal of Management*, 21(3), 3305-3324; Park, H.S., & Luo, Y. (2001). Guanxi and organizational dynamics: organizational networking in Chinese firms. *Strategic Management Journal*, 22(5), 455-477; Yamagishi, T., & Yamagishi, M. (1994). Trust and commitment in the United States and Japan. *Motivation and Emotion*, 18, 129-166; Reid, D., Zyglidopoulos, S. (2006). Managing corporate reputation within the Chinese context: future research directions. *Corporate Reputation Review*, 9, 155-161; Fock, H., & Woo, K (1998). The China market: strategic implications of guanxi. *Business Strategy Review*, 7(4), 433-44.
- 5. Economic hindrances of guanxi:** Braendle, U., Gasser, T., & Noll, J. (2005). Corporate governance in China – is economic growth potential hindered by guanxi? *Business and Society Review*, 110, 389-405.

ONLINE BUSINESS & LEADERSHIP JOURNALS



**Regent
Global Business Review**
exploration innovation transformation



**journal of biblical
perspectives
in leadership**



**LEADERSHIP
ADVANCE
ONLINE**



IILS
INTERNATIONAL JOURNAL OF
LEADERSHIP STUDIES



**JOURNAL of
PRACTICAL
CONSULTING**



real
revista de estudios
avanzados de liderazgo

Free Subscription • www.regent.edu/global/journals

School of Global Leadership & Entrepreneurship

REGENT UNIVERSITY

Christian Leadership to Change the World