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QUESTIONING GUANXI: DEFINITION, CLASSIFICATION AND IMPLICATIONS

International Business Review, Volume 11, Number 5, October 2002, pp. 543-561(19)

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ABSTRACT

Despite the growing interests among both academics and practitioners in the west, the concept of guanxi is not much questioned and there is considerable confusion about its implications for business. This paper explores the nature of guanxi by using a multiple definition approach. It defines guanxi as *the process of social interactions* and argues that the existence of guanxi base (special relationship) does not produce guanxi. The paper classifies guanxi into three categories: family, helper and business; and critically examines the role of guanxi in business. The paper has drawn up some important conclusions. (1) The potential benefits of guanxi are mainly tactical rather than strategic. (2) Guanxi, as a personal asset, cannot be a source of competitive advantage. (3) The guanxi between a businessperson and a government official is inherently corrupt and ethically questionable. (4) As guanxi has an impact on the wider public, it should be studied in the context of all stakeholders. (5) Guanxi's role in business will eventually diminish as China moves towards a more open market system.

KEY WORDS: Guanxi, relationship, business ethics, China

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1. Introduction

Guanxi, a Chinese term referring to interpersonal connections, first appeared in the west in 1980s in popular business writings that advised about cultural factors affecting doing business in China (Pye, 1982; Butterfield, 1983; Alston, 1989). It was believed that right guanxi was a vital factor in business negotiation, and could bring a wide range of benefits: securing rare resources, bypassing or short-cutting the bureaucratic maze, obtaining information and privilege, selling otherwise unsellable goods, providing insurance against uncertainty and assistance when problems arose. The past few years have seen growing business and social research interests in guanxi in the western literature, and the importance and the role of the concept has been extended and upgraded. For example, guanxi has been:

1. identified as one of the most important key success factors in doing business in China (Yeung and Tung, 1996; Abramson and Ai, 1999);
2. regarded as a source of sustainable competitive advantage (Tsang, 1998; Fock and Woo, 1998);
3. acclaimed as marketing's third paradigm (Ambler, 1994), thus linking the concept with the school of relationship marketing (Simmons and Munch, 1996);
4. extolled as the future direction for the western business practices in the new century (Lovett, et al, 1999).

In other words, guanxi is seen as a potential solution for most problems of entering and operating in China. Despite the growing number of publications on guanxi and its impact on international companies doing business in China, there is still considerable confusion around the concept as well as its alleged benefits. The purpose of this article is twofold. Firstly, the nature of the concept is explored in detail and a new definition is offered. Secondly, the role played by guanxi in business is critically examined. The conventional views on the benefits of guanxi are questioned and the link between guanxi and other western concepts examined.

2. Guanxi in the existing literature

The existing publications on guanxi are summarised in Table 1, and divided into three categories. In the earlier studies guanxi was introduced to business audiences as a cultural phenomenon and discussion was centred around its predicted impact on business negotiation (for example, Brunner and Tonka, 1977). More systematic study of guanxi as an academic topic was carried out by researchers in the areas of anthropology, sociology and psychology (Jacob, 1979; Hwang, 1987 and Yang, 1986). These studies mainly have a focus on the human or social effect of guanxi rather than the economic value of it. The past few years have seen a growing number of publications on guanxi from the business perspective, focusing on two main themes: a) the business implications and benefits of guanxi; and b) the possible links between guanxi and some western concepts such as competitive advantage, networking and relationship marketing (Simmons and Munch, 1996; Arias, 1998 and Lovett, et al, 1999). Although much more has been written about guanxi and its importance (see Wu (1999) for a comprehensive review), there is still a good deal of confusion about the concept itself and its implications for business. This stems from the fact that the majority of the studies concentrated on discussing the benefits of guanxi without defining the concept properly, with few exceptions in the non-business studies of guanxi. For example, most authors accept the notion that guanxi is a kind of *special relationship*. However, personal relationships have existed for centuries but the term “guanxi” in its current meaning was not in common use in China until the middle of 1970s. Discussions of guanxi in the Chinese newspapers first appeared around 1978 (Yang, 1994:147). In the following section the nature and meaning of the guanxi concept will be examined in detail.

(Insert Table 1 here).

3. Definition: what is guanxi?

Seen from outside, guanxi is complex and defies definition. As no direct translation of guanxi exists in English it is best left untranslated (Pye, 1982) A Chinese character may have different meanings when it is used as a noun or verb and when used with another character to make up a phrase. Of the two characters that make up the term guanxi, the first character 关 (guan) as noun literally means “a pass” or “barrier”, as verb means “to close”. The second character 系 (xi) as noun means “system”, as verb means to “tie up” or “link”. The term guanxi (关系) in the Chinese language has multiple meanings. It could refer to one of three things: (a) the existence of a relationship between people who share a group status or who are related to a common person, (b) actual connections with and frequent contact between people, and (c) a contact person with little direct interaction (Bian, 1994). However, in everyday communication guanxi has a pejorative connotation referring to ‘the use of someone’s authority to obtain political or economic benefits by unethical persons (*The Dictionary of New Words and Phases*, 1989:92).

3.1. Definitions in the literature

In the existing literature, guanxi is commonly defined as special relationships two persons have with each other (Alston, 1989). To Jacob (1979), guanxi means connectedness or *particularistic ties*. Gold (1985) states “guanxi is a power relationship as one’s control over a valued good or access to it gives power over others”. Osland (1990) adds on: “...a special relationship between a person who needs something and a person who has the ability to give something.” Pye (1982) regards guanxi as “friendship with implications of continued exchange of favours”.

All these definitions are useful as they depict guanxi as special relationships. However, this is just one side of the coin. How does guanxi distinguish itself from other relationships? Indeed, guanxi is a kind of relationship, but relationships do not necessarily produce guanxi. In order to clarify the concept, it is vital to have a concise understanding of the nature of guanxi. Instead of providing a single simple definition, a multiple definition approach is adopted here that, hopefully, will provide a clearer picture of guanxi.

3.2. *Guanxi as relationship*

In the simplest term, guanxi is a *special* relationship between two persons. But how special (or close) this relationship is dependent on the nature of the relationship (guanxi base), i.e., two persons having a commonality of shared identification or attributes (Jacobs, 1979), or being related to a common person. A guanxi base (relationship) can be classified into the following three categories:

1. relationship by birth or blood
 - family
 - kinships, in-laws
2. relationship by nature:
 - locality (from the same town or province)
 - classmate or alumni
 - teacher-student
 - co-worker: colleague or superior-subordinate
 - neighbour
 - in the same profession
3. relationship acquired
 - acquaintance
 - knowing the same person (intermediary)
 - friend
 - sworn brotherhood

The first group of *blood bases* are largely predetermined. The second and third categories are *social bases* (Tsang, 1998). A party in the relationship may or may not have the choice.

3.3. *Relationship is not guanxi*

The problem with the above definition is that there is no definite link between any of the above relationships (shared attributes) and guanxi. Firstly, the existence of a guanxi base itself does not automatically lead to producing guanxi, or *active* guanxi. It will only strengthen or improve the guanxi once it has been established by some other factors ('triggers'). In fact the two parties involved in a guanxi might have realised or discovered that they share one or more of these attributes only after they established guanxi. In other words, relationships (no matter how special) do not guarantee the development of guanxi. For example, A and B were schoolmates thirty years ago and had not seen each other after the graduation. They had relationship (guanxi base) but have no guanxi. Similarly, a divorced couple might still share many attributes, but they don't necessarily have any guanxi if they no longer stay in touch. Secondly, it is possible for guanxi to be developed between two total strangers who had no shared guanxi base, which makes this definition invalid. This is contrary to the existing literature (Jacobs, 1979; Tsang, 1998). Jacobs (1979: 242) claims that existence or non-existence of a guanxi base determines the existence or non-existence of a guanxi. This is not true. One may share certain attributes with at least dozens if not hundreds of people in one's social life, it would be impossible for one to develop and /or maintain guanxi with everyone. One can develop and manage only a handful of guanxi (*active* guanxi not *relationship*) for specific purposes at a particular time, because developing guanxi costs time, energy and money - all limited resources. That means the existence of a guanxi base is not sufficient to developing guanxi as one could have some kind of (previous) relationship with someone but there is no longer any guanxi or *lianxi* (which literally means getting in touch or making contact). Therefore, there must be some other factor(s) that trigger the development of guanxi.

Although a certain affinity relationship may already exist by nature, guanxi needs to be produced or established by purpose or for a purpose. Furthermore, contrary to the conventional definition, a guanxi process can be started between two people, who do not share a guanxi base between them. This guanxi process, compared with the guanxi with a base, may be difficult to start or takes a longer time, but is not uncommon. The two parties may discover or build some guanxi bases between them during the process. In short, relationship (guanxi base) may exist as a matter of fact, but guanxi is an *action* taken deliberately for a specific purpose. As the Chinese saying goes, *nobody would visit Three-Treasure Temple without a good reason*, or the party who initiates the process would normally say: “I wouldn’t come in to bother you if there wasn’t something coming up, for which I need your help.” The motive is to find a solution for one’s problem, “to get the thing done”.

3.4. Guanxi as connection

A relationship can be simply a matter of fact. As aforesaid, the relationship between two parties might be static, remote or cold, i.e. they are no longer staying in touch. In particular, having relationship with someone does not mean that you can contact that person at your discretion. Guanxi is different. As a connection, guanxi is *live*, dynamic and working: like an electric circuit, which can be connected and switched on. People with guanxi are

as though they carry special switches with them, and if you get involved with one person, you’re suddenly involved with a whole network. ...Complex personal relationships, built of layer upon layer of interlocking connections, formed a dense net (Liu, 1983).

The beauty of guanxi lies exactly in that through one single guanxi, one can get access to much wider network of connections. The more guanxi (connection) one has, the more doors (opportunities) are opened for interaction privilege. A person with

wider or stronger *guanxi* in the Chinese society will have more resources at his disposal and is thus well positioned to benefit in various ways. This person does not need to be influential or have higher status himself; but if he is somehow connected to an official, (for example, working for the official as his secretary, chauffeur, or cook, etc.) he has access to the official. To the outsider who wants to see the official for help, he behaves as a gatekeeper or link person.

3.5. *Guanxi as exchange*

Guanxi is the reciprocal exchange between two persons for a specific purpose. What is exchanged is *qingqing*, *ganqing* or *renqing*/ favour. It is important to distinguish these three terms here. Although all refer to human feelings they vary in both nature and intensity: *qingqing* (affection to the loved ones), *ganqing* (emotion to friends) and *renqing* (human debt to acquaintances). A favour can be intangible as advice/information/ counselling or tangible as gifts/ jobs/ houses or any other products or services. The exchange in business *guanxi* is a complex special case. This will be discussed in the second half of the paper.

There are some important differences that distinguish *guanxi* exchange from marketing exchange. Firstly, *guanxi* exchange starts with two parties A and B, or the petitioner and the allocator (Hwang, 1987) but may have more parties involved later during the process. For instance, B was willing to help A but had no resource or ability at hand. Therefore B had to ask C for help. Secondly, *guanxi* exchange is contingent in terms of value and time. There is neither a fixed rule nor specific value of what is being exchanged or when the exchange will be completed. It all depends on the circumstance and the relative position of the parties involved. The whole process is informal, complicated and non-transparent, which creates uncertainty in the process as the outcome of exchange is not always predictable nor what the party expected. B

may have accepted the gift from A but failed to deliver what A asked for. Finally, whether reciprocity is applied and when the favour is returned depend on the type and nature of guanxi. This is contrary to the literature that emphasises strict reciprocity (for example, Yeung and Tung, 1996).

3.6. *Guanxi as resource*

Guanxi is a form of social investment (Butterfield, 1983) or social capital, an important resource that a person can tap into when there is a need to find help or support. To develop and maintain a guanxi relationship is like putting one's money into a saving account or purchasing insurance policy so that one could get help whenever he needs. *Guanxi equity* is a set of assets and liabilities linked to a guanxi relationship. Each guanxi transaction (exchange of favour) will add or subtract the balance of favour. Some studies have drawn on resource-based theory by taking guanxi as a kind of organisational resource and capability that not only affect the firm's performance but could create competitive advantages (Xin and Pearce, 1996; Luo, 1997; Tsang, 1998). There are two problems here. Firstly, it is not clear whether guanxi, an asset owned by an individual, can be transferred to the firm. Secondly, to be a source of competitive advantage the resource has to be rare and relatively immobile. This will be analysed in detail later in Sections 5.1 and 5.4.

3.7. *Guanxi as process – a new definition*

Guanxi is the process of social interactions that initially involve two individuals (A and B). A may or may not have special relationships with B. A asks B for assistance (favour) in finding a solution to a problem. B may have the solution at hand, or more often, has to seek further assistance from other connections, i.e. starts another process.

This definition can be illustrated with the following example, which, though hypothetical, is very much typical in the real life. A businessman (A) was ordered to pay a hefty fine for tax evasion. He asked his friend and old schoolmate (B) to help. B

then went to see his father-in-law (C), a cadre (an official in the communist party or government) who was retired but still influential. C called his former army subordinate (D) the chief of the Tax Bureau for a favour. D agreed to waive the fine, and later received a large amount of cash from A as a thank-you gift. B and C were also repaid with a nice dinner. In this case, three guanxi processes took place (A-B, B-C, and C-D). Generally speaking, at least three possible outcomes might happen when A first asked for help:

1. “the thing” was done but C and /or D remained unknown to A;
2. “the thing” was done and either C or D or both had been introduced to A. A established a guanxi relationship with D through B and C, in other words, A’s guanxi network had been extended. So A might go to D directly for a favour next time;
3. even D was unable to help. There could be several scenarios here: D might seek further help from his own connection E; or A had to start a new guanxi process or abandon the task.

(Insert Figure 1 here)

This definition presents a significant departure from the literature. Firstly, it emphasises that guanxi is a dynamic process which begins with two persons but may involve more parties at later stages. A relationship, strong or weak, exists all the time; guanxi as a process has a beginning and an end. Guanxi can only happen when there is a need for something to be done, which triggers the guanxi process. Secondly, in a guanxi relationship, one person (B), in most cases, may not have the solution even though s/he is willing to grant a favour. B has to search further connections for the solution. That is exactly what guanxi means. Here B’s role is a facilitator, intermediary, or matchmaker, rather than a solution-provider. Thirdly, a guanxi process (pulling or walking guanxi in Chinese) involves a series of activities mostly pre-planned and carried out between two or more parties in the guanxi network. Such activities can include anything from having a meal together, to gift giving or doing a

favour. Finally, guanxi can occur between two persons without any shared attributes (guanxi base). In the above example, A (petitioner) did not have any existing or previous special relationship with D (the solution provider). A could start the process by using B (with whom A had guanxi base) as a go-between to reach C and through C to D.

3.8. Summary

The term of guanxi referring to relationship has been in use for thousands of years. However, the concept of guanxi and discussion of its current meaning - the use of personal connections for political and economic benefits, - did not appear until the middle of 1970s (Yang, 1994:147-8). The above discussion has showed the concept of guanxi is complex and multi-faceted. Defining it properly means studying the many facets that make up the whole. To sum up, guanxi is usually a multi-path process starting with two parties. The process will move on involving more parties, and stop only when a solution is finally found or the task is abandoned.

4. Classification of guanxi

In the non-business studies, guanxi has been categorised by guanxi bases (for example, Jacob, 1979). This can be problematic as it is argued above in 3.3. In most managerial studies the complexity and variations in guanxi are underestimated and guanxi is discussed in general terms and treated as a single phenomenon. So there is a need to find another way to distinguish different types of guanxi. Guanxi can be classified into three categories: “family”, “helper” and “business guanxi”. Family guanxi and helper guanxi are similar to what Hwang (1987) terms “expressive ties” and “instrumental ties”. Business guanxi is defined here as the process of finding business (rather than *personal*) solutions through *personal* connections. From the comparisons in Table 2, it is clear that family guanxi is different from helper and

business guanxi in almost all aspects: nature, purpose, function, core values, and what is exchanged. For example, family guanxi is shaped by Confucian values, emotional driven, qinqing/ affection is exchanged in which reciprocity is not necessary; while helper guanxi is the product of contemporary socio-economic systems, utility driven, favours are granted and returned. In terms of quality, family guanxi is stronger, stable and last longer while helper guanxi is unstable, temporary and could be a one-off case.

(Insert Table 2 here).

It should be noted that guanxi in reality is far more complicated and has no clear-cut boundary between the three types. It is possible that guanxi between two parties may evolve from one type to another over a period of time, or their guanxi is a mixed type as they may share more than one guanxi base. Nevertheless, this classification is useful for analytical purposes as it helps the researcher identify which guanxi is under study. It is also meaningful in solving the long lasting debates on two issues. The first is whether guanxi is a function of Chinese political economics or an unchanging Confucian structure (Kipnis, 1997). Clearly, it depends on which type of guanxi is under discussion. While “family” guanxi is deeply rooted in the Confucian heritage, “helper” guanxi and business guanxi are mainly the product of the political and socio-economic systems in the contemporary China. The second debate is around whether the importance of guanxi will remain or diminish over time (Arias, 1998; Yeung and Tung, 1996). It can be postulated that family guanxi, as a social construct, will remain largely unchanged over a long period of time; in contrast, “helper” guanxi and business guanxi will change in their functions and importance in the coming years.

5. A close look at business guanxi

Interpersonal relationships exist in various forms in every human society. However, guanxi is considered as a unique Chinese construct (*The Economist*, 8/4/2000) and a product of Confucian values and the contemporary political and socio-economic systems. Much has been written on the importance of and benefits brought by guanxi, but it remains largely speculative on how guanxi is related to business and what kind of role guanxi plays in business operations. This is partly because all three types of guanxi are mixed or entwined in reality, so it is very difficult to distinguish them. For example, should business guanxi be viewed as the practice of general guanxi (“family” and “helper”) in a business context or a special guanxi of its own? What characteristics does business guanxi have? Can the relationship between two organisations be regarded as business guanxi? How do managers practice guanxi to achieve their personal as well as organisational objectives? It is beyond the scope of this paper to address all these questions. The section will focus on the nature of business guanxi, its alleged benefits and its ethical implications.

5.1. Guanxi is a personal possession

Guanxi, by its definition, is a kind of personal possession: an asset owned by an individual and working only at personal level. In the process of personal interactions, one individual asks for a favour from another individual and they are engaged in the personal exchange and bond by mutual obligations. Whether an organisation can use the guanxi asset of its employee is entirely up to the person himself. He may use his guanxi (in his private capacity) to bring benefits to his employer but this guanxi remains as his personal property and will not become an organisational asset (Tsang, 1998). When the employee leaves the firm, he takes his guanxi with him. Whether guanxi can be transferred is dependent on the nature of the guanxi and the status of

intermediary. Firstly, if a guanxi relationship is transferred it can only be passed on from one person to another person, not to the organisation. Secondly, not every guanxi base/ relationship is transferable, because of the existence of entry barriers to certain so-called *rare* guanxi: i.e. a personal connection so valuable that the owner is reluctant to share it with even a friend. The guanxi relationship remains as an exclusive personal asset. Thirdly, a guanxi process consists informal social interactions. Guanxi deals are often shrouded in secrecy with neither party involved wanting to talk openly about the details. This creates barriers to entry for outsiders.

5.2 Business guanxi: B2B or B2G

Business guanxi can be further divided into two types according to the parties involved. 1) If both parties in the relationship are businesspersons, it is B2B guanxi. 2) If one party is a businessperson the other a government official, it is B2G guanxi. B2B guanxi bears some resemblance to the supplier-customer relationship in the west but there is a fundamental difference between them: B2B guanxi involves two individuals rather than two firms. The discussion thereafter will be limited only to B2G because a) it is the predominant form of business guanxi in China; and b) the majority business literature on guanxi discuss the concept in this sense though no distinction is made between B2G and B2B. B2G guanxi represents a way to bypass laws and regulations through personal connections with government officials and to obtain special treatment or scarce resources.

5.3. Benefits of guanxi are exaggerated

In the existing literature, the role and benefits of guanxi may have been grossly exaggerated and cannot be substantiated. There is no convincing direct evidence to show how and to what extent guanxi alone is beneficial to business performance. Guanxi variables used in these studies are vaguely defined (e.g. Luo, 1997; Ambler,

et al. 1999) and their relationship with performance not clear. Empirical evidences are weak or even conflicting, as most of them were based on either small samples or anecdotes.

One of the major benefits that guanxi is believed to offer is obtaining information on government policies, market trends and business opportunities (Davies, et al, 1995).

The following case shows how such a benefit was actually obtained. The chairman of an Australian company seeking investment opportunities in China had a good relationship with the local executive of a large state-owned enterprise, who was a close friend of a key government official in Shenzhen.

Throughout the entire negotiation process, the executive continuously fed the chairman with prompt information on how the government had viewed the project itself. The chairman was able to make an appropriate presentation based on this input, which led to a successful negotiation outcome (Yau, et al, 2000).

The paper, citing this as a good example of using guanxi, gave no details on what favours were returned to the Chinese official and the local executive. The behaviour of the Chinese official and executive clearly broke rules, if not laws. On the other hand, the way that the Australian firm used to obtain information is ethically questionable.

Another benefit widely cited is that the guanxi network improves efficiency by reducing the transaction costs (Davies, et al 1995 and Lovett, et al 1999). However, recent empirical studies show the contrary: developing and maintaining guanxi is a time-consuming and expensive endeavour and perceived as a major *disadvantage* (Fock and Woo, 1998; Yi and Ellis, 2000). A survey conducted by the Hong Kong Independent Commission Against Corruption estimated that guanxi accounted for up to 5% of total costs in doing business in China (ICAC, 1993). Guanxi is also said to help credit collection. The fact is that most companies in China found themselves in

the predicament of bad debts and triangular debts (*Far East Economic Review*, 6/7/2000). Under the current market environment in China, guanxi may be an effective option or even the only way to make things work, but it is by no means efficient or cheaper option in the long term.

Guanxi has an important character that is often overlooked in the literature: the intended benefit of guanxi transaction cannot be delivered immediately after the “payment” in some cases, the delivery may never arrive. As stated in 3.5, guanxi exchange takes place as informal and complicated multiple processes that often involve more than two parties. It is largely a futures transaction with unspecified delivery time; also there is no guarantee in terms of the value or quality of the benefit. There is a paradox in guanxi: does using guanxi reduce uncertainty or increase uncertainty? When a firm has heavy reliance on guanxi to the point that cultivation and maintenance of the guanxi network consume much of its financial and managerial resources, the expenses and risks may outweigh any potential benefits such guanxi could generate. To many companies, guanxi became such an unbearable burden that they tried very hard to get rid of it, a phenomenon called “guanxi evasion” (Chen, 1995).

5.4. Guanxi as competitive advantage is a fallacy

Not all assets have a strategic value. Only strategic asset can create competitive advantages. To be categorised as strategic assets, resources must be valuable, rare, imperfectly imitable and not substitutable (Barney, 1991). Clearly, guanxi does not meet these criteria. Firstly, the value of B2G guanxi is like an investment in the stock market that may go down as well as up. Guanxi asset may become worthless or even turn into a liability if one party (typically, a government official) loses power or is implicated in corruption. Guanxi does bring its owner certain advantages, but these

advantages are not strategic but tactical and temporary. Secondly, guanxi as a personal asset owned by an individual is mobile and volatile, which makes guanxi advantages difficult to sustain. Tsang (1998) suggests converting interpersonal guanxi into interorganisational guanxi to reduce the mobility. However, the so-called inter-organisational guanxi does not exist in reality because guanxi, by definition, can happen only at personal level. As soon as the relationship between organisations becomes formal and contractual, it is no longer guanxi. Finally, the majority of guanxi relationships is not exclusive and can be copied. An outside newcomer can develop new guanxi or penetrate the rival's network by using intermediaries and financial incentives, though it may take more time, money and efforts.

Guanxi is an important factor in doing business in China. However, guanxi itself is necessary but not sufficient for achieving business success. Guanxi cannot make a poor strategy successful; as a tactical tool, it can only make a good strategy work. A business strategy solely based on guanxi is naïve and risky. Moreover, the time and costs spent on guanxi could outweigh the potential benefits, as B2G guanxi by nature is neither stable nor reliable. Such guanxi could change overnight from asset into liability when officials in the guanxi network fell suddenly in disgrace as the recent corruption cases showed. The proponent of guanxi likes to paint a rosy picture: *during the process of cultivating guanxi within business relationships, customer loyalty evolves naturally, while bonds are created with suppliers and with creditors* (Financial Times, 27/11/00). However, the reality could not be more of the opposite. There is little trust or commitment in the B2G guanxi relationship (Fock and Woo, 1998). With the exception of family firms, business guanxi is characterised as utilitarian, tactical and opportunistic. The only thing that matters to the parties is their own business interests and the utility of other party.

5.5. *Guanxi and corruption*

Business *guanxi* is often confused with “business network”. The fundamental difference lies in that the most important members in any B2G network are not suppliers or customers as the case in the west, but government officials who hold powerful positions. Suppliers and customers may not even be counted in such *guanxi* network. In a society with a long tradition of rule by man instead of by law, it has always been vital to have good *guanxi* with officials. This special *guanxi* relationship between a businessperson and an official is aptly termed in Chinese as venal *guanxi* or “*qianquan jiaoyi*” - the deal between power and money. *Guanxi* is the matchmaker that ties up the two parties in the following diagram:

Money ← <i>Guanxi</i> → Power → Corruption
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Corrupted *guanxi* and *guanxi*-based corruption are like Siamese twins that cannot be separated. There is no B2G *guanxi* network that is not tinted by corruption and no corruption without using *guanxi*. Inside China, *guanxi* is the synonym for corruption and other wrongdoings such as nepotism, bribery and fraud (Yang, 1994). During the economic reform and opening up of the past twenty years corruption in China has become so rampant that it has been called the plague or cancer of the society. In the middle of 1970s, *guanxi* was used to obtain scarce goods for personal use or to find a better job for one’s children through the ‘back door’. Today, *guanxi* is linked to big corruption cases and organised crimes. Corruption can be found in any country or economic system, but it is *guanxi* that provides fertile soil in China for corruption to flourish. The weakness in the market structure and an inadequate legal system, combined with a lack of transparency due to the absence of political opposition and

media scrutiny, have allowed guanxi to contribute greatly in making China top of the league table of the most corrupted countries (Transparency.com).

Using “guanxi wang (guanxi-net)” as key words a search in the *People’s Daily* for the 12 months in 2001 produced 56 articles (<http://search.people.com.cn>). All but four news reports and commentaries are about guanxi network and its links with corruption and mafia. Typical titles read like *Smashing guanxi network, Victory of justice over evil, Uprooting guanxi-corruption network*, etc. One particular feature is that corruption has evolved from individual wrongdoings into institutionalised corruption that often involve a complicated guanxi network between high-ranking officials, businessmen and criminal gangs. In the past three years, China executed more than 20 high-ranking officials, including a vice-chairman of the People’s Congress (the national parliament) and a few ministers, the first in the 52 years history of the People’s Republic. Recent big cases are a smuggling ring in Fujian Province and custom frauds in Guangdong Province, with estimated value of \$80 billion and \$20 billion respectively. The central government has waged and lost every anticorruption campaign as new “worst” and “biggest” cases are constantly emerging. In 2001 the mayor of Shenyang received suspended death sentence while the deputy mayor was executed with five others on charges of accepting millions of US dollars in bribery and having gangland links. Other prominent cases include the governor of Yunnan Province who was accused with corruption and providing protection for criminals, and the former governor of Bank of China who was implicated in embezzlement and money laundering. Corruption is so bad nowadays in China even the authority admits that it directly threatens the survival of the Communist Party and could cause social turmoil.

On the other side, it is not uncommon for companies to be forced or even blackmailed

into the guanxi-related corruption. Jakobson (1999) offered a vivid account of business guanxi in reality. A manager in a private company had to spend tens of thousands of Renminbi each year improving his guanxi with local officials. If he didn't, he would not be granted export licence, could not get a bank loan, and would not even have the electricity and water supply to run the factory. Clearly in this case, the firm was forced to maintain its guanxi; thus guanxi became a powerful tool wielded by corrupted officials to blackmail business for their personal gains.

5.6. *Guanxi and ethics*

The ethics of guanxi has so far received little attention in the literature. In contrast with the extravagant claims on the benefits of guanxi, the dark side of guanxi is never fully understood. Is guanxi ethically acceptable? Family and helper guanxi are generally *good guanxi* that is totally moral or even desirable, causing no harm to outside parties. On the contrary, B2G guanxi is ethically questionable. A survey of 275 senior managers in China found that 96.3% respondents considered guanxi as the root of “*evil trends*” (Fu and Zhu, 1999), a term generally referring to wrongdoings ranging from fraud to corruption. To the Chinese, B2G guanxi is inevitably associated with favouritism, unfair competition, bribery and fraud. There are countless examples. In 1998 pyramid selling was banned in China after millions of people lost their lifetime savings in the bogus selling schemes (McDonald, 1998). In the majority of cases swindlers deliberately chose people whom they had close guanxi relationship with (relatives, friends or classmates) as unsuspecting easy targets. Trust was betrayed for profits. Ironically, when the victims realised the fraud most of them tried to recruit newer victims in the same fashion in order to recoup their losses. Such scandals exposed the pernicious side of guanxi.

Guanxi may bring personal gains to individuals, vital resources and cost savings to the organisations that employ them. But these benefits are often achieved at the expense of other individuals or firms as B2G guanxi dealings create significant disadvantages for companies outside the network, which stifles competition and is detrimental to the whole society. In this way, social good is sacrificed for personal gains. Guanxi is all about exchanging favours, especially about obtaining ‘special treatment’ from those in power (*Applied Chinese Dictionary*, 2000:449). Therefore, B2G guanxi is inherently corrupt as such a special treatment may be just legal, but is very much questionable in moral and ethic terms. ‘Special’ means to bend or break rules, to act against one’s moral consciousness or even to act illegally. Where there are individual gains via guanxi, there are losses to the society as a whole. A simple acid test to judge whether a guanxi transaction is ethical is to find whether there are victims as a result of such a deal. These victims may be known as the competitor of the firm, or the customer; or they may be unknown in some cases. A guanxi action is right from the ethics point view only if there is no third party either known or unknown that is adversely affected as a result of this guanxi exchange. Unfortunately, the vast majority of B2G guanxi cases would fail this test.

5.7. Guanxi’s role in the future

For international companies doing business in China, guanxi is an important consideration mainly at the initial stage: introduction, negotiation and set-up of operation. As soon as the business is up to running, other factors will take up their importance. The guanxi relationship established during the early stage needs to be reassessed of its equity values to decide whether to maintain it over time. This is because the guanxi stock and the role it plays will be changed or diminished while foreign firms move down the learning curve in the Chinese market. Ultimately it is

not guanxi, but high quality products and good marketing strategy that make business success in the Chinese market just as it is true anywhere else.

The proponents of guanxi defend these practices on ethical relativism by arguing that *guanxi is based on eastern principles, and can be as ethical as any western system* (Lovett, et al 1999). That is totally untenable. Differences in business norms and legal systems do exist between western developed countries and a developing economy like China, and ethical norms are generally higher in the former (Vogel, 1992). However, if certain guanxi practice unacceptable in the west seems to be “acceptable” in China, it does not justify its existence as ethical, but simply shows that it is the *inevitable evil* in a transitional economy. If anyone obtains personal gains through guanxi activities at the expenses of others (competitors or general public, the society), this guanxi should be deemed as ethically unacceptable even if they did not break the law. As a matter of fact, most B2G guanxi practices are totally unacceptable even by the current Chinese ethical standard, and remain the target that the authority has been vigorously campaigning to crack down for years.

As discussed above, B2G guanxi is a product of China’s political and socio-economic systems: imperfect legal system and underdeveloped market structure. Under the shortage economy of 1970s and early 1980s, one had to use guanxi to buy a bicycle or train ticket, but this has all changed. The development of the market in the last 20 years has made all these former uses of guanxi redundant. It can be argued that with the further progress in the market economy and an emerging democratic civil society, the importance of business guanxi (in its current form) will be gradually reduced rather than increased. A recent survey of 28 international joint ventures in Eastern China found that respondents named branding, quality and distribution channels rather than guanxi as the most important factors in achieving business success in

China (Fan, 2001). Moreover, information technology, the Internet in particular, has been regarded as the solution that could help develop a more open and transparent market system and reduce the dependence on guanxi middlemen. A good example is the Sunshine Purchase Project in China, an online auction site for industrial materials (*Asian Week*, 3/7/2000), which effectively relieved companies of the guanxi burden in terms of both time and cost, and reduced the chance of corrupt dealings.

6. Conclusions

It is strange to see that B2G guanxi, which is widely condemned in China, obtained its popularity in the western business literature, and is on the way of becoming a new fad in international business. Although guanxi is found to share certain characteristics with some western concepts such as relationship marketing or networking, there are fundamental differences between them (Fan, 2000b). Lack of understanding of these differences and failure of distinguishing different types of guanxi result in much of the confusion in the literature. As discussed in this paper, guanxi is such a unique Chinese social concept based on its cultural values as well as political and socio-economic systems that it cannot be studied alone from economic or financial perspectives (for example, the transaction cost theory). Another issue is that guanxi has so far been studied mainly at personal level, though some discussion also relates to the organisations these individuals represent. This is inadequate. As guanxi transaction has an impact on much wider public than the guanxi parties concerned, the consequences of guanxi must be examined in the context of all stakeholders and at three levels: personal, organisational and societal.

The aim of this paper was to explore the nature of the guanxi concept and to examine its implications to business. It has probably raised more questions during the inquiry than it could answer, and set up the scene for further academic debate. Future research

is needed in a number of areas. (1) To investigate how guanxi works in a business context. In particular the research should focus on how guanxi affects the firm's performance and what ethic consequences a guanxi act has on other stakeholders. (2) The impact of guanxi on organisation behaviour and HRM in China is still largely unknown. An understanding of guanxi's role in managerial decision-making will help the western partners in foreign-funded enterprises develop better relationships with their Chinese counterparts. (3) To study guanxi along with other relation-based systems, for example, the Good Old Boy Network in the west. Such comparison will certainly shed new light onto the subject. In any guanxi research, it is crucial to pay special attention to the conceptualisation of guanxi variables and research design. As guanxi is a typical backstage culture people would be reluctant to share their guanxi secrets with an outsider unless the researcher succeeds in being accepted as an insider.

Acknowledgement

The author wishes to thank two anonymous reviewers for their valuable comments on earlier drafts of this paper.

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Table 1 Summary of Existing Studies on Guanxi

Earlier Studies	
Brunner and Taoka (1977)	Guanxi's role in business negotiation
Alston (1989)	Guanxi is basically utilitarian rather than emotional.
Brunner, et al (1988)	A model on how to establish and maintain guanxi.
Non-business Studies	
Jacobs (1979)	Detailed analysis of guanxi base.
Gold (1985)	Guanxi used as instrumental tool to get things done.
Yang (1986, 1994)	A comprehensive study on guanxi and its role in social relationships.
Hwang (1987)	Guanxi, face and power game.
Bian (1994)	Guanxi's essential role in the allocation of urban jobs.
Kipins (1997)	Examining the roots of guanxi in rural kinship and ethics.
Recent Studies	
Ambler (1994)	Transactions follow the building of successful guanxi.
Davies, et al (1995)	The benefits of guanxi: the smooth operations securing information and resources.
Simmons and Munch (1996)	Guanxi is the Chinese version of relationship marketing.
Yeung and Tung (1996)	Guanxi is more important in the initial stages of entering the Chinese market and emphasised by small firms.
Xin and Pearce (1996)	Under the weak legal system, private firms are more dependent on guanxi as protection.
Luo (1997)	Guanxi variables were positively related to the performance of foreign funded enterprises.
Arias (1998)	Guanxi is a prerequisite to a business relationship.
Fock and Woo (1998)	Absence of commitment distinguishes guanxi from relationship marketing.
Tsang (1998)	A good guanxi network is a necessary but not sufficient condition for business success in China.
Wong (1998)	A guanxi model helping firms key account management.
Abramson and Ai (1999)	Guanxi was identified as a key success factor for Canadian companies in China.
Amber, et al (1999)	The impact of guanxi on the inter-provincial export.
Lovett, et al (1999)	Guanxi is evaluated from ethical and efficiency perspectives.
Standifird et al (2000)	Guanxi based business practice offer cost advantages.
Yi and Ellis (2000)	The benefits and costs of guanxi activities.
Pearce II and Robinson (2000)	Cultivating guanxi is essential for western firms in China.
Fan (2000)	Guanxi and relationship marketing are two totally different constructs with no links.

Figure 1. How Guanxi Works

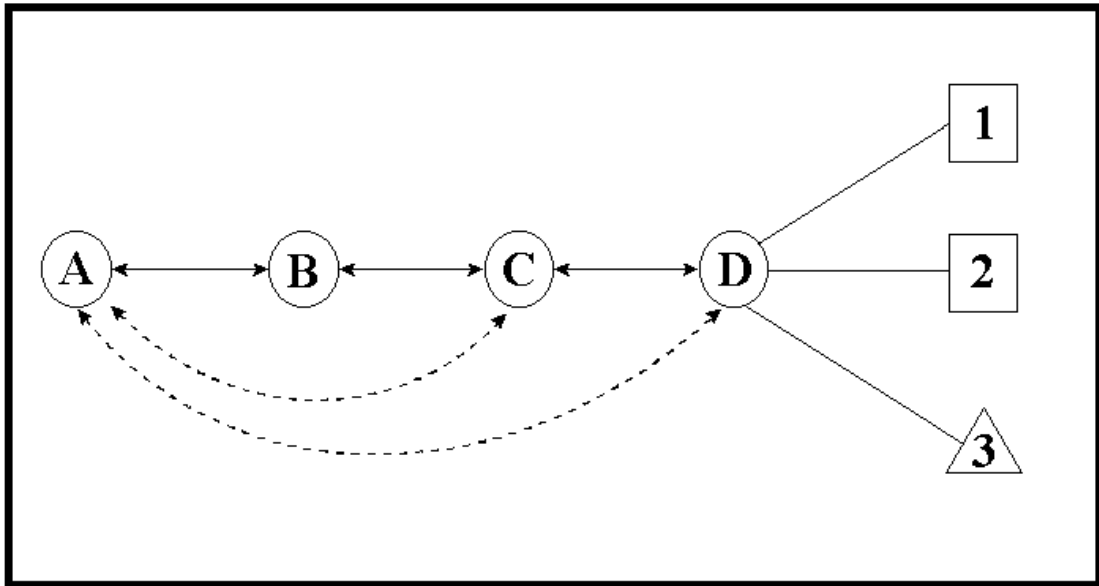


Table 2. A Comparison of Three Guanxi Typologies

Type	Family Guanxi	Helper Guanxi	Business Guanxi
Definition	Special relationship, the expressive tie	Process of exchange favours	Process of finding business solutions through personal connections
Nature	Emotional, and instrumental	Instrumental / utilitarian	Purely utilitarian
Cultural / Social Root	Chinese cultural values (Fan, 2000a)	Cultural values and contemporary socio-economic factors	Current political and economic structures, eg. weak legal system
Base	Mostly blood base, some social base	Social base	Mainly through intermediary
Core Values	Qinqing/ affection, obligations, empathy	Renqing, face, trust? credibility	Renqing, face, power/ Influence
Motivation / Purpose	Mutually dependent, emotion-driven	'To get things done' utility-driven	To acquire scarce resources or get special treatment
Function	Ends and means	Means	Means
Exchange	Love / affection, support	Favour	'Money and power deal'
Condition	Normative obligation. Reciprocity not necessary, can be altruistic	Reciprocity expected but the weaker party benefits more, incremental calculation	Strictly reciprocal, 'gain and loss' bargaining
Relation	'Zijiaren' (member of one's own family) one of us	'Shouren' (familiar person), insider or outsider	'Shengren' (stranger) outsider, a mixture of private and business relations
Quality / Closeness	Strong and stable	Medium, normally unstable	Varies (depends on the existence of other bases)
Downside	Nepotism	Burden of renqing (human debts)	Corruption, social loss
Time	Long term or Permanent	Varies or one-off	Temporary