

## DOING BUSINESS IN CHINA: THE GUANXI WAY

Systematic assesment of relationship building in Chinese realm

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### *Abstract—*

Guanxi is considered to be the lifeblood of any Chinese business community which extends to politics as well as society. Many people in the world are aware of Guanxi but they are not very well aware of its source. This paper attempts to provide a conceptual framework with relation to interpreting systematic assessment of relationship building to succeed in a Chinese realm. It also helps in understanding what all are the core competencies for conducting business with mainland china along with the myths of doing business in China.

*Keywords- Guanxi, Myths, Guanxi Base, China, Mianzi*

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## Introduction

Guanxi can be visualised in terms of layers of relationships, with trust implicit in the central layers, which are family relationships (Styles and Ambler, 2003) or as a network of multi-lateral relationships comprising families, relatives, friends, classmates, colleagues, acquaintances, or even rivals and “foes”. Guanxi network is a reciprocal relationship which becomes the basis for social capital developed between two parties (Fan, 2002). It is a social obligation which arises when one party does something which is valuable to the other party (Cheng, 2011; Pye, 1992). This obligation creates leverage for the giver of this obligation to do an interpersonal favor (Yang, 1994).

Defining Guanxi is a challenge as it exists in different situations or different ways as each Guanxi has a different connotation in history. Pye (1992) described Guanxi as “friendship with continued exchange of favour”. Ambler (1995) used the analogy of a sand bar at a harbor entrance to describe Guanxi. Inside the sand bar you are one of us but outside the bar your existence is barely recognized. In general, Guanxi refers to the establishment of a connection between two individuals to enable a bilateral flow of personal favour or social transactions (Yeung and Tung, 1996). The Chinese consciously or unconsciously use Guanxi to carry out their daily activities. And it is deeply rooted in their society. All those who are in the Chinese community should know about the importance of Guanxi and should know how to use it effectively. In China Guanxi is also pervasive and it is used in all situations.

Guanxi is generally classified into three types: family, helper and business Guanxi (Fan, 2002). Family Guanxi is mostly blood-based, including parents, children, brothers, daughters-in-law and so on. Helper Guanxi is social-based, including relatives, friends, teachers, students and classmates. Business Guanxi is a process that finds solutions for some business through personal connections. Business Guanxi is based on personal gain and loss, and examples could be suppliers, customers, business partners, etc. Furthermore, Peng and Luo (2000, p. 486) demonstrated that, in business Guanxi, the micro-interpersonal ties that Chinese managers have with government officials help improve organizational performance. Therefore, business Guanxi in the Chinese meaning differs fundamentally from business relationships as commonly conceived in the West.

## Myths of doing Business in China

China is becoming rapidly an economic superpower and it has a different business culture that is highly misunderstood outside China. This could result in heavy loss by Strategic and financial errors. Doing business in China is never been an easy task because china is considered to be a unique market and the stronger it grow economically the more likely it remains so. Foreign entrants when they enter China they need to be aware of the unique culture it should be applicable for both prospective and actual entrants and understanding the concept of Guanxi as well as the myths of doing business in China is important.

Once we succeed in other markets we will conquer China because China is a unique market. China has major cultural differences compared to the rest of the world. These differences are vast and they are not easy to grasp for those who have not grown up in that culture. Chinese use contracts differently. Negotiation is among the going process. For instance, the signing of a contract is merely the start of negotiations rather than the end. Chinese will not bring in their lawyers into a negotiation at the beginning. Chinese resort to Guanxi primarily because of its relatively less sophisticated legal system, in which people have no choice but to rely on interpersonal relations to get things done. Further, the principle of doing others a favour when it is necessary and returning favours to those who helped you, is also advocated by Confucian philosophy. Although the Chinese government has been enacting thousands of laws, rules and regulations, the legal and regulatory environment is still far from perfect. In such an environment, personal relationships are expected to remedy the possible voids in legal interpretation and organizational structure (Yau et al., 2000; Lee and Dawes, 2005).

Without insights comprehension is usually impossible. Because of the differences and lack of understanding these differences it is often said that doing in business in China has no rules. In fact, there are many rules except these rules are different from those we know. Sometimes, people may perceive Guanxi practice to be unethical (Ang and Leong, 2000). To learn about the rules we will need the guidance of those who have the insights specially those who have done business in China and those who have learned the rules as well as those who have followed them. Learning the rules the hard way can be very expensive. Research suggests that

Guanxi is extremely prevalent when regulations are either absent or not well observed (Bian, 1994; Luo, 1997). The lack of formal behavioral guidelines creates a range of gray areas between what should be done and what should not. Therefore invading those who have already know the way of doing business in China is considered far more economical. Recognizing this difference itself Chinese are making lot of efforts in adapting into the international markets. This effort however might cause confusions to other businesses who wanted to establish their business in China. As eventually many people think that it is going to be the same as how they conduct business in other countries. But it is not going to be the same.

The other myths could be sentimental basis of relationship releases the party from engaging in a symmetric exchange in each and every transaction they do that is when a favor given is not met with a favour in return. If a favour is not met with a favour in return it is considered to be against the rule of Guanxi. It is expected to carry out a reciprocal transaction in the economic sense. There is always a (petitioner) and a giver (allocator) for a favour (Hwang 1987) in each transaction. This imbalanced relation makes a Guanxi and it obligates the parties for further exchanges and it affects the significance of relationship itself rather than what is been actually exchanged in each transaction.

Reports and Data are more available these days in the international market. However secondary data should only be used as a reference. To get Primary data on China can be restrictive. They have restricted it to due to couple of issues. The reasons could be china is considered to be a large market. To gain primary data can be more expensive and difficult to reach. Because of China's culture, selective release of data and source can be a part of the face saving and it is considered to be the major cultural feature of China. For the sake of face (Mianzi) Chinese can Therefore it can be difficult for organizations to gain first data. Never the less the organizations also must ensure that they conduct at least some part of the research. This is recommended because if we simply rely on purchasing reports of data the competitors also try to do the same. Especially those data which are made by big companies could also be sold to other competitors for the same price or even bigger price. These remains a situation where in the competitors use the same data and conclusion and then formulate the same strategy.

China is a cheap place to invest. Many western companies have benefited by taking advantage of cheap labor in china. Nowadays cost savings is not considered to be the motive for western companies to set up research and manufacturing plants in China. Most companies take advantage of the swift speed of the market and access to a greater talent. According to the Boston Consulting Group, there are over a million millionaire households in China. Some estimate that in the next decade as many as one billion Chinese will be in the middle class. With this economic growth, people are expecting and demanding top quality products.

The other myths could be China is considered to be a market economy, Chinese consumers are same elsewhere in the world, Chinese speak good English and still China is considered to be a developed country. Anyone working with the Chinese will find a multifaceted, fast-changing culture. As one respondent notes, managers can tap Eastern and Western strengths alike by learning the nuances of both business cultures and developing the flexibility to work in either one. “The Chinese will often pop in to see you with no appointment. They are also considered xenophobic. Behind all this looms the magisterial figure of Confucius. His works may not be on every Chinese person’s bookshelf, but his tenets and values inform all areas of Chinese life.

According to Wong and Chan (1999), Guanxi can be defined as “personal relationships” or connections’ with other people and that its fundamental base is created through pre-existing relationship of people from the same birth place, relatives, superiors and subordinates in the workplace and so on. Hence in China, everyone has Guanxi with a certain number of people and once they belong to this social network, they perceive each other as an insider. The distinction between insider and outsider is very important, because insiders are seen as trustworthy and reliable and they can approach each other for favours, resources and further contacts. Also, because of a long history of mistrust between business organizations and the legal system, the Chinese prefer to use Guanxi both to exchange benefits and to expand their social network. Thus if an outsider wants to establish Guanxi with another network, the most effective way is to get a third party intermediary involved to construct a mixed relationship.

Misunderstandings and misconceptions concerning this significant topic persist. There might be also exhibit a negative connotation related to bribery and corruption: the usage of someone's authority to obtain political or economic benefits by unethical person(s); *guanxi* or *guanxixue* represents a way to bypass regulations, laws or norms through personal connections with people who control limited resources.

### **Mianzi (Face) and Renqing (favour)**

Mianzi is about "the giving of face or enhancing of someone's social status" (Buttery and Leung, 1997, p. 382). Renqing means "a resource allocated to another person as a gift and also connotes a set of social norms to guide an individual to get along well with other people" (Wong and Tam, 2000, p. 58). Renqing and mianzi are reciprocal on both sides of the business and revolve around a principle of response or repayment (the Chinese word *bao*) (Yau et al., 2000).

### **Guanxi base**

Some researchers have misunderstood that Guanxi as inter organizational relationship. For example, "a firm could enhance its performance by benefiting from the Guanxi network it has established" (Luo and Chen, 1997, p. 4). Guanxi base is considered to be the main factor for developing Guanxi and Guanxi cannot be developed by two strangers who have no Guanxi base at all.

Strangers have to share indirect Guanxi base in order to develop Guanxi, that is to say, no Guanxi base, no Guanxi happening. Guanxi can only be produced when Guanxi base plays roles for specific purposes at a particular time (Fan, 2002b, p. 547). Relationships which are considered natural could be able to develop a Guanxi base. If people do not take advantage of shared attributes or apply the Guanxi base to reality in life, dynamic Guanxi will never occur. Guanxi is considered to be dynamic in nature. The Guanxi starts when a person begins with a favour exchange. Otherwise it is just considered in a natural way of approaching and would be considered as a Guanxi base.

## Commitment

Due to the complex, competitive and dynamic business environment in China, the initial commitment of Chinese business actors is very hard to achieve.

The case of Motorola has given a clear example on how to maintain Guanxi in China over time. According to the Chinese loss of Mianzi (face) results in possible dissolution and degradation of the Guanxi relationship. The Former CEO of Motorola travelled to China in October 1986 since when Motorola was identified and they befriended three generations of potential leaders. Motorola planned to set up factories in Tianjin but the Tiananmen Square incident led the US government to sever its diplomatic relations with China. Many bureaucrats who were working with Motorola lost face because of the withdrawal of its commitment to build in China. Many westerners decided to remove their business from China. But Motorola planned to delay its construction of its factories for two years but never withdrew its commitment to do so. For re-entering into the Chinese market Motorola should re-built the Guanxi network it had and carefully nurtured it. By 1997, Motorola's investment in China was \$1.3 billion; double that of the next largest US investor, Atlantic Richfield. Furthermore, Motorola was the first foreign firm to insist on full-ownership for a manufacturing operation (Drawn on Standifird and Marshall (2000, pp. 24-36), and re-edited by the authors).

Shared commitment of both parties to the relationship, not commitment alone, is what matters most (Harvey and Novicevic, 2002; Skarmeas et al., 2002). So as to achieve shared understanding in business relationships with China there should be a mechanism which would be able to connect short term objectives with long term objectives.

## Transferability

Guanxi is transferable. This means that if A owes B a favour, and both A and B know C, the favour to A can be also be returned through C, if B does a favour for C. Transferability is considered to be the beauty of Guanxi (Fan, 2002). By this we can conclude that by knowing a person who actually has better connections with the whole network. The reciprocity and

transferability are at such a degree that an individual does not even need to meet or be in contact with another individual whom one fulfils a favor if this favor requester is a contact of someone within one's own network (Michailova & Worm, 2003; Nojonen, 2007). Transferability can make a Guanxi network multifaceted.

Transferability is fortunate for newcomers, as otherwise they would face severe difficulties when conducting business (Pearce and Robinson, 2000). Most of the people in the west use mediators to begin a relationship in China. Often Guanxi parties establish new Guanxi relationships through these introductions (Chan, 2008).

### **Trust**

Chinese always prefer people whom they trust. The relationship between Asian and African cultures has always been integrated. It is often believed by these societies that the trust which they build help them to conduct successful business transactions. A client seeking strategy is followed wherein people first believe in having established relationship for better business transactions. In China, they prefer to create relationships with those they often trust and know. The relationship should also be at personal level and it should be an ongoing process.

Trust between alliance partners is important to the sustainability of organizational network, capacity of knowledge transfer, and organizational performance (Bstieler and Hemmert, 2010; Luo, 2002; Zaheer et al., 1998). Trust was viewed as the basis for shared goals which were the basis of cooperation driven by self-interest. Under conditions of trust, one would expect disagreements to be handled using collaboration or compromise-based methods.

### **Conclusion**

This paper mainly highlights the Guanxi gateway ties that could emerge from both insiders as well as outsiders. The concept of Guanxi is considered to be an important direction of inquiry because it considers as a barrier and instead views it as a facilitating mechanism. Chinese Progress has been made "crossing the river by feeling for stones," as Deng Xiaoping put it. We can conclude from this paper that Guanxi is considered to be an ongoing process and network of connections and relationships among members of a business community like China which is very unique. While doing business in China some growing pains are inevitable and businesses which



are being established in China should also not expect an overnight success. Guanxi is considered to be planned, Negotiated and intentional. It is a time consuming process and understanding the myths of doing business in China is considered more necessary. This is where the importance of cross cultural studies plays an important role. It takes time to understand the cultural differences and the dynamics of the business relationships as it is a unique market. China's economy is characterized by a lack of coherent business laws and strong governmental control over limited resources (Xin and Pearce, 1996). These characteristics of China's economy demonstrate the difficulties of entering this massive market. Hence, it is considered to be one of the skills which are considered to be necessary to be successful in China. But it should not also be the only factor which should be considered while doing business In China. Some Chinese tend to consider Guanxi as a unique phenomenon which is beyond the understanding of other parts of the world.

Guanxi is considered to be Due diligence. The reason being in most of the Chinese business, Credit reports, company profiles, audited financials they consider them to be either to be non existing or meaningless. Chinese people themselves served as a primary means of performing due diligence. As technological developments in data collection and data processing as well as in communicating and interacting with customers provide opportunities to meet these requirements, companies are increasingly shifting their focus from transaction- oriented to relationship-oriented strategy so as to build a competitive edge. The paper also discussed about the core competencies for conducting business in China and how they are implemented and myths about Guanxi and concluded that Guanxi is considered to be the key success factor in China, Guanxi is considered as a substitute for corruption and it is said that if we succeed in personal relationships through Guanxi we need not worry about the laws, regulations, bureaucrats and other factors which affects the business.

Besides, the practice of Guanxi is not unique to China; it occurs in many societies (Li and Wright, 1999 in Wright, Szeto and Cheng, 2002). It also pervades other business cultures such as Japan (called Kankei or Toyama or Kusuri), Korea (known as Kwankye), India, Russia (called Svyazi), and other managed economies where intimacy with those in authority, be they political, military or bureaucratic, is important (Lehtinen, 1996; Robins, 1996). Guangxi is still quite strong in China. From a business perspective, Guangxi can help you understand the in-sight of

one business opportunity, so that you can review whether you should pursue or bid that opportunity, and forecast the chances of winning. People's Guangxi is always very limited, so the critical thing for them is to continuously develop and establish Guangxi (for purposes of winning businesses in a long run). Many researchers have argued that developing relationships is considered to be necessary step to succeed in China (Ambler, 1994; Hall and Hall, 1987; Johansson, 1995; Luo, 1997b).

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