Can new corruption legislation drive guanxi out of business? – Western and Chinese multinational managers’ perceptions

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Abstract: The study examined executives’ attitude to and perception of guanxi and the ethical ramifications of guanxi practices in relation to Western values and ethics. The research involved semi-structured interviews with 12 high level Western and Chinese multinational executives. A contribution of the paper is to highlight that, though it challenges some deeply rooted Western stances on ethical values, guanxi remains a necessary passport to access Chinese business. The executives believe that the tenacity of guanxi is associated with the ongoing strength of Chinese culture and economy. Thus, while some Western executives may feel uneasy about guanxi in modern business, their Chinese counterparts do not perceive guanxi as contravening ethics. The managerial implications for organisations centre on the need to assess guanxi as social capital. The research contributes to fill empirical gaps related to using guanxi as social capital to enhance international business.

Keywords: guanxi; HRM; business negotiation; ethics; Chinese market; social capital.


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Can new corruption legislation drive guanxi out of business?

1 Introduction

Scholars present China as a society of relations and connections, where personal interactions are extremely important and the ancient cultural concept of guanxi shapes both private and business norms (Fang, 2018; Fan, 2002; The Economist, 2004). Understanding the principles of guanxi and its role in Chinese transitional market environment is a way of getting better oriented in Chinese networks and practical insights into an unfamiliar cultural environment, making effective strategic decisions and enhancing a company’s results (Wang and Rowley, 2017; Wan and Ng, 2012; Ai, 2006; Fernandez and Underwood, 2005).

In 2012, Xi Jinping replaced Hu Jintao as a General Secretary and President of the Communist Party of China (CPC) (Värk, 2015) with the determination to advance policy reforms initiated by his predecessor in view to double the prosperity of Chinese people by 2020, stabilise economic growth, reform and reinforce the legal system. Xi Jinping pledged to eliminate corruption and shadow banking, improve the environment, implement structural reform in the military and encourage freedom of speech (Värk, 2015; Tiezzi, 2014; Yu, 2013). President Xi has been striving to create a new China with a strong middle class and democracy.

Notwithstanding Xi Jinping’s and his predecessors’ efforts to restructure and reinforce the legal system, they stumbled on a bureaucratic system and the cultural particularism of Chinese society that is oriented toward personal relations (guanxi), which were more important than the rule of law (Gu et al., 2008; The Economist, 2004). A further obstacle faced is rampant institutional corruption linked to the excessive use of guanxi (Dunfee and Warren, 2001). Western corporations such as Asimco, PepsiCo, Sunway, in search of justice, were left without legal support and faced important financial losses (The Economist, 2004). Sumitomo Chemical sued a local Chinese partner and destroyed partner relationship (The Economist, 2004). However, more and more foreign businesses, such as BAT, Hilton International, British Petroleum and Coca-Cola found their way to business success in China; they played by Chinese rules (Fernandez and Underwood, 2005; The Economist, 2004) as they developed the understanding that officials who were in charge, had power derived from their guanxi relationships (Fang, 2018; Kwock et al., 2013). Owing to its trust basis, guanxi has more importance and influence than formal legal contracts (Fang, 2018; Wan and Ng, 2012; Fan, 2002). The contract in China does not have the same effect as in the Western world; a contract in Chinese conception is evidence of mutual trust and respect between two parties and can be renegotiated if one of the counterparties experiences difficult times (Kwock et al., 2013).

China is in a transitionary economic period becoming a more market-based economy but many scholars believe that guanxi, in some form, would always be a part of doing business in China (Wiegel and Bamford, 2015; Zhang and Zhang, 2013; Gu et al., 2008).

Trade relations have always existed between the West and China. However, these became more significant after China joined the World Trade Organization (WTO) in 2001 (Pelle, 2007). Economic and socio-cultural reforms started late 1970s under the leadership of Mao Zedong and Deng Xiaoping. These reforms led to constant Chinese economic growth (Torres, 2013). China’s joining the WTO reshaped global trade (Pelle, 2007). China is now the second world largest economy (Torres, 2013) and could
potentially become the largest to feed the global demand for natural resources (Torres, 2013).

Academics and practitioners have studied the role of guanxi for many decades, probing how guanxi stands as a special cultural concept, social and business phenomenon and can be key to successful business in China (Ai, 2006; Fernandez and Underwood, 2005; Lovett et al., 1999; Tsang, 1998; Yeung and Tung, 1966). Guanxi, or personal connections and relationships that originated from the Confucian philosophy, penetrated every aspect of personal and business life (Ai, 2006; Chen and Chen, 2004; Fan, 2002). Guanxi is an individual, time-and-money-consuming resource, based on trust, reliability and long-term relationship of mutual help, favours, and obligations (The Economist, 2004; Tsang, 1988; Wiegel and Bamford, 2015). On the one hand, guanxi encourages trust, respect, and responsibility and creates the basis for long-term cooperation; on the other hand, it has its dark side and is closely connected with nepotism, corruption and bribery (The Economist, 2013; Gu et al., 2008; Fan, 2002; Dunfee and Warren, 2001).

The research aims to understand the place of guanxi in the modern realities of Chinese environment in a globalising world. The key research question is: what are Western and Chinese international managers’ perception of and attitude to guanxi in modern business? A further concern of the research was to establish what explains the tenacity of guanxi in business negotiations in a dynamic global business environment. Guanxi has attracted extensive research attention but this further study is justified in the light of the emergence of several anti-bribery legislations in both the West and China. Researchers such as Han (2016) and Yin (2017) acknowledge that in the wake of recent legislation, little has been done to ascertain whether international managers align guanxi with corruption and whether the practice of guanxi has mutated as a result. This research contributes to unveil perceptions within international companies that use guanxi to access Chinese business and assess the degree to which current regulatory frameworks have affected the use of guanxi.

2 Literature review

The aim of this literature review is to place guanxi in context and assess the degree to which it has adapted to modern business as well as its potential disconnection with Western business philosophy. Previous studies have investigated guanxi from various perspectives, contributing to historical basis and essence (Fang, 2018; Fan, 2002; Yeung and Tung, 1996), its development and future perspectives (Ai, 2006; Chen and Chen, 2004), ethical and normative principles (Dunfee and Warren, 2001; Fan, 2002; Lovett et al., 1999). Ambler (1994) and Chung (2011) studied the role of guanxi in a company’s strategy and marketing while other scholars investigated guanxi as a substitute for institutional support (Kwock et al., 2013; Xin and Pearce, 1996), and its impact on a company’s performance (Lee and Dawes, 2005). The role of guanxi in buyer-seller relationship (Zhang and Zhang, 2013) and the resource-based perspective of guanxi (Wiegel and Bamford, 2015) have attracted some amount of coverage.

2.1 Conceptualising guanxi

There is a variety of definitions of guanxi in the existing literature. Scholars described guanxi as ‘gate or pass’ and establishment of a connection between two independent
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There is no exact translation of guanxi into English. The word guanxi consists of two parts ‘guan’ and ‘xi’: ‘guan’ means a pass, a gate, a barrier, a hurdle or an obstacle and ‘xi’ stands for a tie, link, relationship or connection (Fan, 2002; Lee and Dawes, 2005). Thus, guanxi can be reframed as ‘pass the gate and get connected’ [Lee and Dawes, (2005), p.29].

For over 2000 years, Chinese life and business philosophy have been founded on Confucian principles of social order and harmony (Lee and Dawes, 2005; Luo and Chen, 1997; Park and Lou, 2001; Yeung and Tung, 1996). Scholars define three types of guanxi: personal, business and political (Chen and Chen, 2004; Fan, 2002; Park and Lou, 2001). Sebenius and Qian (2008, p.2), based on Confucian philosophy, emphasised the following principles in Chinese business:

- importance of interpersonal relations
- family orientation
- respect for seniority and hierarchy
- pursuit of harmony and avoidance of conflict
- concept of face.

On the contrary, Western business philosophy is result-oriented and focused on formal rather than informal communication. Thus, managers are reluctant to invest time in long conversations and follow complicated etiquette rules of dining and gifts and often consider these practices inefficient and unethical (Ai, 2006; Chen and Chen, 2004). As a result, misunderstanding and conflict appear in communication and harm business relationship; Western managers consider Chinese colleagues unskilled, evasive and dishonest; Chinese managers, in turn, find Western business partners impersonal, persistent and double-faced (Sebenius and Qian, 2008; Ambler, 1994).

There are cultural practices around the world that are similar to guanxi, e.g., Russian ‘blat’, Middle East ‘bakshish’, Japanese ‘kankei’, Korean ‘kwankye’, Haitian ‘pratik’ and Western ‘relationship marketing’ (Wan and Ng, 2012; Wang and Rowley, 2017). However, Chinese guanxi has special characteristics with two main foundations, guanxi base and guanxi quality (Chen and Chen, 2004; Fan, 2002; Tsang, 1998).

Guanxi base can be inherited or ‘ascribed’ (Fang, 2018). It could be inherited from family, the locality or education. Guanxi base can also be achieved in the form of ‘sworn brotherhood’ [Tsang, (1988), p.65], professional endeavours (working in the same organisation or profession), direct acquaintance or acquaintance through an intermediate person. In terms of guanxi quality, scholars concur that the accumulation of favour (renqing), reciprocity (bao), face (mianzi), personal trust (xinyong) and affection
create guanxi; however it is the level of trust and level of emotional commitment that define the quality of guanxi (Wiegel and Bamford, 2015; Zhang and Zhang, 2013; Lee and Dawes, 2005; Chen and Chen, 2004; Yi and Ellis, 2000). Guanxi is a type of relationship, however, not every relationship produces guanxi (Fan, 2002). In contrast to relationship marketing practiced by Western managers where transaction, task-orientation and time-consumption are a priori, Chinese managers put relationship first; they are human-oriented and are ready to invest time to build strong guanxi relationships at the first stage; business will follow if guanxi is strong (Fang, 2018; Ai, 2006; Dunfee and Warren, 2001; Fan, 2002).

To maintain guanxi managers should interact, invest time and money to build trust and enhance emotional commitment (Wiegel and Bamford, 2015; Wan and Ng, 2012; Lee and Dawes, 2005). Gift giving, entertainment, supporting intermediaries are essential elements of guanxi, however, they do not correspond to the Western ethical principles and cause misunderstanding, awkwardness and discomfort, and even anger (Gu et al., 2008; Sebenius and Qian, 2008). However, time and money investment is not a guarantee of a strong guanxi; it requires deep credibility (xinyong) and affection (ganqing) (Chen and Chen, 2004).

2.2 Ethical principles in guanxi – Chinese and foreign perspectives

Gift-giving, borrowing money, paying commission, offering and getting favourable jobs, getting wine-and-dine and different kinds of social activities and entertainment (e.g., golf paying, cultural excursions, karaoke, and massage, etc.) are different forms of guanxi favours (Chen and Chen, 2004; Luo and Chen, 1997). Undeveloped legal and institutional structures in China support interpersonal relationships and enhanced guanxi (Kwock et al., 2013; Xin and Pearce, 1996). Some Western managers consider mistakenly that “giving bribes is the quickest way to establish guanxi” [Tsang, (1998), p.66], but a ‘bribe’ may work for one transaction and will not bring trust and ganqing nor help build a strong guanxi (Ambler, 1994; Lovett et al., 1999; Tsang, 1998). Guanxi manifests itself not only in festivity and amusement but also in troubles and misfortunes (Chen and Chen, 2004).

Western business culture has provisions for gift-giving as well. However, the form of gift-giving and gifts is different. Over 30% of large Western companies have gift acceptance policy (usually a gift value in a range 20–50 Euros) and a limited budget to offer presents (Bruhn, 1996). In contrast, Chinese practices do not have such policies and companies provided larger budgets to develop guanxi relationships and encourage managers to spend more time with business partners (Chua, 2012; Luo and Chen, 1997). In the USA, the Foreign Corrupt Practices Act (FCPA) banned valuable gifts offered local and foreign officials in return for the offer of business deals (Szto, 2016). The European Anti Bribery Act 2012 has similar provisions that mirror the US FCPA (Pappalardo et al., 2012). Recently, the Chinese government has formulated legislation that could be seen as directly challenging the guanxi practice (Szto, 2016). However, given the cultural embeddedness of guanxi in Chinese society, anti-bribery legislations have not curved the phenomenon at the everyday level because the legislation was mainly aimed at officials in public office.

Cultural divergence is a fundamental challenge in defining the ethical side of guanxi (Ai, 2006; Chen and Chen, 2004; Ambler, 1994). Western culture is individual-oriented, target-driven, conflict-based and strives for an instant solution to issues (Kwock et al.,
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On the contrary, Chinese culture is group-oriented, driven by human relationships, strives for conflict avoidance and seeks harmony and tolerant of time (Kwock et al., 2013; Ai, 2006; Ambler, 1994). Thus, despite recent Chinese government legislation on corruption, guanxi is enduring since public perception of the practice is that it a “moral norm in the country that dramatically influences what constitutes a suitable social behavior within the Chinese culture” (Yin, 2017).

2.3 Managers and guanxi

Guanxi is a resource that is specific, unique, non-transferable and valuable for both an individual and a company (Fang, 2018; Chen and Chen, 2004; Fan, 2002; Park and Lou, 2001). As indicated earlier, favour, reciprocity, face, personal trust and affection are guanxi ingredients (Wiegel and Bamford, 2015). However, the level of trust and affection define guanxi quality and its strength (Zhang and Zhang, 2013; Chen and Chen, 2004; Lee and Dawes, 2005; Yi and Ellis, 2000). Trust [not the signed contract] is the most important element in business relationship between buyer and seller in guanxi; individuals’ words and behaviours define the deal and further relationships (Kwock et al., 2013; Dunfee and Warren, 2001). Trust and affection in guanxi solve conflicts, reduce risk connected with opportunistic behaviour from both participants, provide confidence in short-term inquiries, decrease transaction costs and build a strong foundation for long-term relationships (Zhang and Zhang, 2013; Wan and Ng, 2012; Lee and Dawes, 2005).

A strong guanxi requires time, money and emotional commitment (Fang, 2018; Wiegel and Bamford, 2015; Zhang and Zhang, 2013; Chung, 2011; Lee and Dawes, 2005). Moreover, contrary to some Western managers’ opinion, trust and affection of Chinese partners is not possible to buy (Ambler, 1994; Tsang, 1988).

Guanxi is often compared with relationship marketing, widely practised in Western countries, where trust is one of the key elements (Wan and Ng, 2012; Wilson and Brennan, 2010; Fournier et al., 1998). However, due to cultural particularities, Western philosophy favours a clear cut between black and white, good and evil; this is contrary to Confucian philosophy and Taoism, where yin and yang are more mutually reinforcing rather than opposite elements (Zhang and Zhang, 2013; Lee and Dawes, 2005; Ambler, 1994; Fan, 2002).

Thus, cultural backgrounds caused misunderstanding and challenges in negotiation procedures and routine work (Wang and Rowley, 2017; Sebenius and Qian, 2008). Robert Anthony once said: “The basic cause of most inharmonious human relationship is the tendency to impose our values on other people” [Ekeren, (1994), p.317]. Western managers were seen as reserved, deadline-oriented, tough-minded and forthright, since they were not ready to invest time in wining and dining and reluctantly shared information about their families and expressed their feelings (Sebenius and Qian, 2008; Chen and Chen, 2004; Dunfee and Warren, 2001; Ambler, 1994). As they are more inclined to promote harmony and balance in human relationship, the Chinese were seen by Western managers as slow and inefficient (Sebenius and Qian, 2008; Ambler, 1994). Moreover, Western managers considered gift giving, wining and dining as a form of bribery and placed guanxi on the same shelf with corruption (Tiezzi, 2014; Ambler, 1994). However, other substantial studies (Fang, 2018; Zhang and Zhang, 2013; Wilson and Brennan, 2010) countered this argument, revealing guanxi as a significant interpersonal skill and an expression of mutual commitment. Wang and Rowley (2017)
view guanxi as a form of capitalism due to the focus of its intended outcome: to draw connections that bring about personal and organisational growth. This sets guanxi as a form of relationships marketing (Wan and Ng, 2012).

2.4 Theoretical framework: resource-based theory

Resource appraisal provides the understanding of a company’s competitive advantage (Yin, 2017; Barney, 1995; Collis and Montgomery, 2008). Only if the resource is valuable, rare, and difficult to copy and organisation has a proper mechanism to control this resource, it can be considered as a sustainable advantage (Barney; 1995; Collis and Montgomery, 2008). Scholars consider guanxi as critical personal resource which can be used when and where it is needed to help gain a favourable position (Chua, 2012; Chung, 2011; Fernandez and Underwood, 2005; Chen and Chen, 2004). If a manager transfers his or her guanxi to the firm, it can be considered as an organisational resource (Wiegel and Bamford, 2015; Gu et al., 2008), contributing to a firm’s competitive advantage. From the resource-based perspective, guanxi is considered a valuable resource to improve company performance, e.g., growth of market share, asset turnover, and quicker transactions and enhance profitability (Chung, 2011; Luo and Chen, 1997; Peng and Heath, 1996). Despite significant economic reforms, Chinese central and local governments still control resource distribution, investment and bank loans (Park and Lou, 2001; Värk, 2015; Tiezzi, 2014). Thus, companies have to use their guanxi with governmental authorities for growth; this makes guanxi relationship an effective institutional support framework to overcome bureaucratic obstacles and solve problems (Kwock et al., 2013).

Much of the literature views guanxi from cultural, normative, institutional, strategic, performance and resource-based perspective in a seller-buyer relationship as far as Chinese cooperation with Western companies is concerned. To understand the sustainability of guanxi as a human resource, Barney’s (1995) VRIO model was used. We conceptualise the relevance of VRIO to guanxi in our conceptual framework in Figure 1. The VRIO framework could be intrinsically linked to Bourdieu’s (1986) notion of social capital particularly in the context of guanxi. Guanxi is valuable capital because it meets a key ‘capital’ criterion established by Bourdieu, i.e., its convertibility to economic capital (Julien, 2015; Bourdieu, 1986). The question of value is evident in guanxi as personal connections provide the necessary support to improve financial and business performance, mitigate institutional obstacles, and influence further development and growth (Bian, 2017; Gu et al., 2008; Fan, 2002). It is necessary to invest time and financial resources in developing relationships to draw benefits from those relationships (Julien, 2015; Ai, 2006; Chen and Chen, 2004). From a rareness perspective, though guanxi is a widespread socio-cultural fact in China, it is a unique individual resource (Bian, 2017; Lee and Dawes, 2005). Chinese managers use guanxi depending their status, personal and professional background. Thus, notwithstanding the widespread nature of this phenomenon, it can be considered rare. Imitability applies in guanxi because it can be copied only for simple and short-term transactions. Strong guanxi, based on trust and affection it is impossible to imitate (Wiegel and Bamford, 2015; Zhang and Zhang, 2013). The question of organisation shows that an individual transfers his individual guanxi to the organisational resource (Fan, 2002; Tsang, 1998; Wiegel and Bamford, 2015). Thus, organisational guanxi cannot exist without personal guanxi (Chen and Chen,
2004; Fan, 2002; Fernandez and Underwood, 2005). When managers leave a company, their connections are lost to the company (Fan, 2002; Tsang, 1998; Wiegel and Bamford, 2015). Thus, organisations revise guanxi relationships and rotate managers on a regular basis (Fang, 2018; Tsang, 1998; Yeung and Tung, 1996).

Figure 1 Conceptual framework

Figure 1 shows how the elements of VRIO are articulated in a guanxi context. This framework combines a concept (guanxi) and a theory (resource-based) prior to application on a framework (VRIO) to evaluate the role of guanxi in building social capital to enhance international business capacity.

3 Methodology

The research was a qualitative built on constructivist perspectives which considers that knowledge is constructed. The goal of the semi-structured interviews was to understand guanxi from the participant’s perspective. Due to the sensitive nature of the phenomenon Chinese people do not speak about their guanxi in public. Previous studies showed that they protect this individual resource as a valuable personal asset (Chen and Chen, 2004; Tsang, 1998; Yeung and Tung, 1996).
Table 1  Coding scheme

<table>
<thead>
<tr>
<th>Themes</th>
<th>First level codes</th>
<th>Sub-codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guanxi role in the modern commodity market</td>
<td>Increases business opportunities</td>
<td>• Provides easier access to the customers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Access to the valuable information</td>
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<tr>
<td></td>
<td></td>
<td>• Personal trust</td>
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<td></td>
<td></td>
<td>• Development by investing time</td>
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<td></td>
<td></td>
<td>• Value-adding</td>
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<tr>
<td></td>
<td>Operational value</td>
<td>• Legal troubles</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Important in daily work</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strengthening ties</td>
</tr>
<tr>
<td>Professionals and personal characteristics for guanxi</td>
<td>Professional qualities</td>
<td>• Expert knowledge</td>
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<tr>
<td></td>
<td></td>
<td>• Strategic thinking</td>
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<tr>
<td></td>
<td></td>
<td>• Language knowledge</td>
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<td></td>
<td></td>
<td>• Persuasiveness</td>
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<tr>
<td></td>
<td>Personal qualities</td>
<td>• Attitude</td>
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<td></td>
<td></td>
<td>• Charisma/personal leadership</td>
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<tr>
<td></td>
<td></td>
<td>• Positive thinking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sociability</td>
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<td></td>
<td></td>
<td>• Generosity</td>
</tr>
<tr>
<td>Resource rarity and inimitability</td>
<td>Guanxi is special</td>
<td>• Use status</td>
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<tr>
<td></td>
<td></td>
<td>• Social and relaxed, positive</td>
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<td></td>
<td></td>
<td>• Entertainment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Unique personality</td>
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<tr>
<td></td>
<td></td>
<td>• Guanxi blurs boundaries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Long-term relations</td>
</tr>
<tr>
<td>Organisational resource</td>
<td>Enhance its results</td>
<td>• Enhance its results</td>
</tr>
<tr>
<td></td>
<td>Motivation and retention</td>
<td>• Keeping individual with guanxi</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Main criteria of hiring senior management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Motivate and encourage</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Difficulties in guanxi transfer</td>
</tr>
<tr>
<td>Ethical issues</td>
<td>Tradition</td>
<td>• Importance of gifts</td>
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<tr>
<td></td>
<td></td>
<td>• Trust not for sale</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Create relaxed atmosphere</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Investment in gifts is ethical</td>
</tr>
</tbody>
</table>

The purposive sample comprised sales and purchase executives with more than ten years’ experience in the commodity market, managers who possessed a rich network within the studied industry. The choice of the purposive sample is associated with the authors’ desire to examine the experience of companies that are more extensively involved in
Can new corruption legislation drive guanxi out of business?

Can new corruption legislation drive guanxi out of business? The research is based on 12 face-to-face interviews with executives working in the commodity market (six Western executives and six Chinese executives).

Fourteen executives operated in the commodity business, coal and iron ore, in particular, were contacted and asked to participate. Two refused due to alleged aggressive timetables. The small sample size is linked to the fact that the researchers intended to have access to a high level of seniority in the organisations who are more often involved in guanxi practices. Notwithstanding the small sample size, the participants represent the guanxi experience of 12 different multinational companies, which increases the significance of the data collected. The Chinese senior managers who did not speak English were interviewed via an interpreter. The interviews lasted on average 90 minutes and consisted of two main parts. The first part covered general information about the company. The second part of the interviews consisted of questions aiming to obtain personal evaluations of the guanxi phenomenon in the modern market environment, their feeling and expectations connected with guanxi.

The interview questions were developed in English and then translated into Russian and Chinese Mandarin for the managers who were not fluent in English. In the spirit of guanxi, the researchers provided lunch and coffee before interviews, which relaxed the atmosphere and led to pleasant conversations. The interviews were digitally recorded and transcribed in separate Word files.

Manual analysis was undertaken given the small sample. The analysis was thematic and aimed to make sense of participants’ responses. The small number of interviews meant that manual analysis was more effective in terms of time and the ability to return to the transcripts for greater scrutiny. After transcribing the data, we first reviewed the interview notes and undertook axial coding to identify threads that would help a second coding process to ‘captures the qualitative richness of the phenomenon’ [Boyatzis, (2006), p.4]. We generated initial codes; we subsequently developed categories which were grouped into final themes that formed the basis for the analysis and discussion. Table 1 shows the coding process.

The coding structure was developed which captured the distribution of discourses of the participants and aspects of perspectivisation (Graumann and Kallmeyer, 2002). We identified the main aspects of the guanxi applications that frequently appeared. We then organised the emerging patterns. We finally evaluated the emotions expressed by the participants vis-à-vis guanxi to identify that the expressed positive and negative uses of guanxi and its relations to trust building and ethics.

The name of respondents and their companies were coded manually in letters to maintain confidentiality. We present and discuss the data in the next section.

4 Findings

Senior managers with more than ten years’ experience in commodity business were interviewed. The participants were involved in import and export activities, engaged in either buyer or seller relations or both and had a good understanding of the commodity market. All the managers were decision-makers and possessed rich working experience. The interviewees, nine were men and three women, were in their ‘40s. The main sample
profile is presented. To preserve confidentiality, the participants and the companies were coded with letters in alphabetical order.

4.1 Role of guanxi in the modern commodity market

The participants, notwithstanding age and work experience, the nature of company business and size, considered guanxi an effective tool to increase business opportunities, strengthen a company’s position and deliver better results. Every participant highlighted additional importance guanxi in trading commodity market since it required having guanxi with each participant in the trading chain: producers and suppliers, forwarders and end-users. Most participants agreed with the core intent of guanxi as expressed in participant A’s words:

“The valuable information gained through guanxi provided easier access to customers.”

Several themes were identified by participants to exemplify the role of guanxi in modern commodity business. Trust was identified as an essential element in guanxi.

Eight respondents highlighted the influential role of personal affection in business relationships. Two Chinese managers provided examples of this, with participant C explaining that:

“A business relations we had with a large company came to an end after only one successful contract because a Chinese manager was disaffected with the trading partners, yet that manager was the one who had the guanxi that enabled us to acquire the contract.”

Chinese managers over 40 years old equally valued guanxi in private and business lives and could not imagine their lives without guanxi, unlike younger managers who prioritised guanxi in the work relations only. One of the younger Chinese respondents (F) was pessimistic about the future of guanxi and explained:

“Guanxi would probably disappear entirely in commodities in 20–30 years. Due to advanced technologies, business deals in future will be done virtually by means of specialized trading platforms and younger people prefer that.”

On the contrary, two older Chinese managers shared a reverse perspective. Participant B is optimistic that:

“Guanxi will remain largely unchanged due to its strong human-oriented Confucian cultural heritage. This is a foundation of Chinese society and I don’t see how this can be eradicated in the foreseeable future.”

4.2 Attributes for effective negotiation and business performance

There was broad convergence of views that professional knowledge and expertise was critical to establishing credibility. The managers interviewed agreed on a number of professional attributes conducive to good negotiation and performance, e.g., expert knowledge, university education, strategic thinking, working experience language skills. However, the respondents felt that more critical to success were personal qualities that aligned with Confucian philosophy. Such personal qualities include reliability, responsibility, charisma, patience, conflict avoidance, politeness, positive thinking and sociability.
Four participants articulate the importance of personal qualities with a significant degree of fluidity and the words of participant C summarises this when he argues:

“Expert knowledge can help captivate the on negotiation quality. Expert understanding of the characteristics of coal and iron ore, the main scope of application, current market prices and tendencies, etc. will reassure the Chinese counterparts and create initial connections. University background is crucial to establish the credibility of the negotiator.”

However, it was the personal qualities that the participants emphasised as being most critical in successful negotiation and establishing connections and guanxi. Patience and good listening skills help to build guanxi and get a deal were higher than when negotiator rush to the critical points. Participant K’s view was widely shared in this perspective:

“Foreign managers with good listening skills possess more patience and respect for a business partner and for that reason had higher chances to get the deal and/or sign a contract. Focus on the speaker, listening without interruption, avoidance shuffling papers, maintaining eye contact, encouraging a conversation partner with gestures essential elements of a good listener who shows respect.”

However, some participants (I and J) stressed that:

“Showing respect does not preclude taking a firm line during negotiations with Chinese customers because once you give in, they would feel the possibility of renegotiating every detail.”

Establishing trust was found to be another significant attribute for developing guanxi. Trust involves reliability and responsibility which were perceived to be vital in guanxi and in the seller-buyer relationship. Participant I summarised this in the following terms:

“Market image is very important. Providing false information could easily cause breakdown in relationships, leading to financial losses and destroy a firm’s reputation.”

The interviewees interpreted trust as a basis for signing contracts and developing further relationships. Respondents A, C and E were particularly expressive on this key point, with participant E arguing that:

“I would never sign a contract with a person and a company that I didn’t have personal relationships with, therefore don’t trust. I need to ensure that conflict will not arise during our dealing together.”

Beside politeness, patience, trust and conflict avoidance, the participants also felt that they would relate better with business partners who have a sense of humour and can articulate (matter) a few words in Chinese. As participant D argued:

“We don’t expect everyone to be fluent in Chinese. But if you can say a few words; that shows that you are interested in developing relations with the partner and respect their space. Usually, this help to crack some jokes and this sense of humour is valuable in creating a relaxed atmosphere good for negotiation.”
4.3 Guanxi – human resource for sustainable competitive advantage

4.3.1 Valuable resource

All the respondents emphasised that trust and reliability between managers in guanxi guaranteed access to valuable information because these become part of the interpersonal qualities required of employees and executives. Strong guanxi helps to get information about buyer needs, production plans, strategic perspectives, financial situation and competitor prices. The use of guanxi as a valuable resource is exemplified by the experience of eight participants which can be summarised in participant K’s words:

“Sometimes, due to changing markets or financial difficulties, one of the parties, mainly Chinese counterpart, refused to fulfil their size of the contract. To diffuse the situation, you need to make use of employees and managers who have connections with that partner. This creates a conflict-free environment which brings positive feelings in negotiations but also enhanced the reputations our managers and the company.”

The research data also revealed that the development of strong guanxi is time-consuming, and could mobilise substantial financial and personal commitment. However, even in the modern business environment, this was necessary investment and endeavour as participant B explained:

“Spending time and effort in developing relationships [guanxi] is a necessary investment in building the required trust and reliability that will later yield results when this investment materialises in signing a contract deal.”

4.3.2 Rare resource

A key theme that runs through the narratives of the managers is the rarity of guanxi in terms of interpersonal relations connected with personal features of the managers. The 12 respondents stated that every modern manager had his/her own, individual and particular guanxi. Four respondents revealed that reference to a relatively high position within a company, prestigious educational background, and good relationship with world-known producers, buyers, suppliers, and forwarders multiplied the chances of getting better guanxi basis.

This unequivocal congruence of views among participants was translated by participant L who argues that:

“There is a personal touch when building guanxi. Two people don’t have the same guanxi. This is comparable to the ‘chemistry’ between individuals and between a person and his organization.”

4.3.3 Organisational resource

Our respondents concurred that managers transferred personal guanxi into the organisational resources. Five respondents found that guanxi is an organisational and human resource that derived primarily from personal contacts. To exemplify this, participant L claimed – and was supported by four managers – that:

“It was difficult to retain guanxi when a key manager has left a company. Guanxi can be lost or weakened in these circumstances.”

This is a key reason why, as participant D puts:
“Guanxi is as a key criterion for hiring senior management staff because all primary deals and transactions were made by deploying the interpersonal communication of two individuals from two courting companies. These managers built a bridge between two companies and brought additional value to relations, from signing a contract to solving operational problems.”

The interviewees agreed that only a smaller proportion of a manager’s skills, mainly professional (strategic thinking, flexibility, listening skills, persuasiveness) and personal (avoiding conflicts, stress resistance), could be learnt during education and work experience. However, core qualities such as reliability, responsibility, charisma, sense of humour, politeness, patience, positive thinking, and sociability, are defined as unique personal characteristics determined by a human personality. The view of the participants can be translated in participant I’s assertion that:

“Management mobility decreases sustainability of guanxi as a human resource. To keep key management in the company and make guanxi sustainable, it is important to motivate and encourage them with involvement, development of new projects, financial incentives and special bonuses, etc.”

It is clear that the perception of guanxi as a critical personal characteristics and organisational was a significant theme in the managers’ discourses.

4.4 Western ethical dilemma with guanxi

The ethical aspects of guanxi were hotly debated by the participants. All the respondents viewed gift giving as a strong cultural heritage in China, and foreign managers should be ready to accept and give gifts.

Nine managers considered guanxi a positive phenomenon and part of human relations. They saw the tradition of giving and getting gifts as ethical. Each company had a budget for giving presents but respondents willingly spent their own money in addition to buy extra gifts. Participant A summarised the argument for guanxi in the following terms:

“The gifts received were never too expensive and ranged from corporate presents such as a notebook, a pen with a company logo to different national specialities such as tea, vodka, chocolate. This shows normal human kindness and appreciation of relationships.”

Additional argument for seeing guanxi as positive was voiced by participant C:

“Personal trust and affection was impossible to buy. I can achieve several beneficial deals during golfing, karaoke and sightseeing. Managers emphasized the time element as an essential component in building trust and personal characteristics to create affection and bond conducive to securing business. I don’t see this as unethical.”

However, three respondents (all Western managers) saw guanxi as a mixed phenomenon in business development and considered it as unfair competition and thus negative. Participant H believes that:

“Many actions in guanxi are geared at bribing the other party. For example, gifting a car, an apartment, expensive jewellery, etc. are all acts of bribery.”
5 Discussion

The data shows that the role of guanxi in the modern commodity market cannot be argued. The participants overwhelmingly agreed that guanxi should be developed to bring value by investing time, money and personal efforts. The research findings are congruent with earlier research in the area of guanxi (e.g., Lewis et al., 2017; Wiegel and Bamford, 2015; Ai, 2006; Chen and Chen, 2004; Fernandez and Underwood, 2005). The participants’ perspectives exemplify the role of guanxi in modern commodity business in which trust was identified as an essential element in guanxi. While some managers predict the end of guanxi (Fang, 2018; Chen and Chen, 2004; Fan, 2002), as it is being diluted by the weight of globalisation, a significant number of managers believe that the practice will survive the test of time because it is engraved in Confucian cultural heritage, which is the foundation of Chinese society and that of many Southeast Asian cultures. Some authors do not see how this can be eradicated in the foreseeable future (Bian, 2017; Chen and Chen, 2004).

The findings suggest that effective negotiation and business performance are largely and intrinsically linked to the individuals’ guanxi. These can be articulated more reliably and effectively by the managers possessing them. Once developed, these attributes which include respect, politeness, reliability and conflict avoidance, can enhance harmony which is a key pillar of Confucian philosophy that underpins Chinese culture. These attributes and the achievement of harmony are the product of guanxi as social capital (Fang, 2018; Bian, 2017).

The findings are congruent with previous researchers such as who found that Confucian philosophy, based on harmony, respect and honour provides the foundation of Chinese negotiation behaviour and domains in Chinese working style. All managers were found to display such personal characteristics as politeness, reliability, avoiding of conflicts which are perceived to be obligatory components geared at achieving successful negotiations and building strong guanxi (Lewis et al., 2017; Zhang and Zhang, 2013; Kwock et al., 2013; Chen and Chen, 2004; Sebenius and Qian, 2008). While expert knowledge is one of the main elements of successful negotiations, fruitful contracts with the Chinese could not be achieved prior to establishing trust (Yin, 2017; Lee and Dawes, 2005; Peng and Luo, 2000). Managers possessing these attributes were found to be better negotiators and better at getting business results since it was easier to deal with them and they had a natural gift to charm counterparties (Pelle, 2007).

In this perspective, guanxi represents a critical human resource that can help organisational sustainability and achieve competitive advantage. In the spirit of the VRIO framework, guanxi is a significantly valuable resource as found by Wiegel and Bamford (2015), Zhang and Zhang (2013), Lee and Dawes (2005), Ai (2006) and Chen and Chen (2004). The results also reinforce the perception of the uniqueness of guanxi, being labelled as a rare resource as the managers interviewed believed that it was difficult to find people who have genuine guanxi capability (see also Yin, 2017; Lee and Dawes, 2005). Our findings set guanxi as an organisational resource and an asset on par with the people resources and financial resources since guanxi is articulated by people and its effective outcome is to increase financial performance (see also Lewis et al., 2017; Wiegel and Bamford, 2015; Zhang and Zhang, 2013).

Guanxi, based on personal trust and affection provided access to valuable information, simplified and improved business relationship between companies, and enhanced business performance. Lewis et al. (2017) and Yin (2017) argue that
establishing a strong guanxi is comparable to establishing a psychological contact between two individuals. The professional and educational backgrounds of managers endowed guanxi with a special nature, which made each relationship unique. RBT analysis of human resource in guanxi identified it as valuable, rare, unique, and challenging to replicate; this perspective leads Wiegel and Bamford (2015) to argue its continued necessity for Western managers to engage with Chinese businesses. Thus, as a human resource it can bring competitive advantage; however, the ‘mobile’ character of this resource raises questions about its sustainability. To make this resource sustainable, a company should attempt to retain the workers with extensive guanxi networks [sometimes regardless of their actual work performance].

The most contentious part of the results of this study is the ethical dilemma with guanxi faced by Western managers. These largely perceived guanxi as unethical to some degree as they thought aspects of the practice could amount to corruption or bribery. The UK and European 2010 anti-bribery laws compel companies and officials to report gift of some nature (Szto, 2016; Pappalardo et al., 2012). Conscious of this and coupled with their own Western cultural principal of fairness, Western managers showed wariness to receive gives, particularly those that could be open to suspicion and potentially damage personal and organisational reputation. However, for the majority of Chinese managers, there are no unethical issues associated with guanxi (Fang, 2018; Wan and Ng, 2012). They perceived gifting as giving as their culture, suggesting that foreign executives ought to recognise and embrace (Wiegel and Bamford, 2015; Fernandez and Underwood, 2005).

6 Conclusions

6.1 Summary

The purpose of this study was to assess the influence of guanxi on business transactions with Chinese companies and on the seller-buyer relationships. The qualitative research focused on discovering participants’ feelings and beliefs in the context of evolving market environment, characterised by different social and cultural particularities. The research examined professional and personal attributes of managers involved in negotiations, their intangible and tacit impact on negotiations and performance results, and their influence on the construction and development of guanxi.

The study confirmed the importance of guanxi relationships in modern business. Notwithstanding the changing market environment, globalisation and technological changes, both Western and Chinese managers involved in seller-buyer relationships considered the ancient cultural phenomenon guanxi an efficient mechanism to succeed in business with Chinese companies. This exemplifies Julien’s (2015) assertion that social capital as theorised by Bourdieu, is valuable because of its capacity to be convertible into economic capital. Western managers could not rely on solutions and practices that work in Western market society to engender better results (Bian, 2017). To enhance the competitive position of businesses, managers need to develop and extend the cultural knowledge of guanxi based on the Confucian traditions of harmony and trust. The research findings suggest that guanxi may change its form in the future. However, in times of strong market competition, it is decisive for companies and managers to develop guanxi relationships by investing time, money and personal effort.
The research evidenced guanxi’s immortality despite anticorruption regulations in both China and the West geared at curbing its influence in business. In fact, the research revealed unease among some foreign managers about guanxi for ethical reasons. However, despite their compliance with organisational policies with regards to relationships and gifts, most Western managers saw no ethical conflict between guanxi and moral principles. The participants displayed awareness of the fine line between guanxi gifts and bribery, though this line was not easy to establish. The study confirmed that gift and mutual pastime were signs of respect (Yin, 2017). However, with increasing legal framework covering bribery and corruption, there are concerns among Western and Chinese managers about approaches to guanxi (Tiezzi, 2014). The findings have substantial backing from the literature with recent studies by Fang (2018), Yin (2017), Zhang and Zhang (2013), Chua (2012) and Fernandez and Underwood (2005) whose findings showed that it was impossible to build a successful business with Chinese companies without guanxi.

6.2 Contribution of the study

The study adds to the understanding of guanxi in the literature presenting Western – Chinese seller-buyer relationships from the perspective of RBT framework (Wiegel and Bamford, 2015; Gu et al., 2008). A unique contribution of our study and the conceptual framework formulated earlier, is to clarify how each aspects of the VRIO framework is inextricably linked to guanxi, positioning it as a powerful social capital to be gained for foreign organisations to be successful in their ‘courting’ of Chinese businesses. Foreign companies may develop greater understanding of guanxi practices and incorporate aspects of new legislation when using their guanxi. However, a significant endeavour of our research construes the elements of VRIO as intimately inseparable parameters in the context of guanxi. The perceptions of the managers shows that guanxi is here to stay, at least in the short and medium terms. The managerial implications for organisations centre on the need to make an assessment of the nature of gifts and favours before they are offered to potential business partners that they are courting. However, organisations need to be more proactive through policy formulation and learning and development frameworks that raise awareness blurry nature of the dynamic between guanxi and unethical behaviour that could damage the organisation performance instead of enhancing it.

6.3 Limitations and future research

However, the findings present some limitations that further research could seek to remedy. First, the data was collected from a small sample. To achieve a higher level of validity, future studies could use a larger and diversified sample size. Secondly, the research was based on companies with different market history, size and nature of company business. International trading activity is a very sensitive topic and includes many intangible elements. The mechanism of guanxi building in a young trading company could differ from guanxi in an established company. Thus, a comparative analysis of guanxi practice in different business entities could bring interesting tacit insights. The impact of gender in building guanxi relationship as well as vocational and personal priorities in guanxi could provide an agenda for further research. Finally, we propose that further research focuses on such areas as the persisting role of Confucian
philosophy in guanxi and cross-cultural dealing in international business in an evolving global context.

References


Can new corruption legislation drive guanxi out of business?


