

Guanxi Networks in China: Its Importance and Future Trends

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Abstract

China's market potential is unparalleled, although many foreign business practitioners have commented that operating profitably in China is difficult, and more complex and time consuming than should be necessary. Given these facts, a lot of research on doing business in China gives recognition to the concept of Guanxi, a social and business relationship network, as the key to conducting successful business. By analyzing current research and collecting primary data from both the Chinese Mainland and Taiwan Province, this study aims to clarify the importance of Guanxi, and to study the future trend of Guanxi. By doing so, this paper intends to help business practitioners in China, especially those from the Western countries, to gain a deeper and more practical insight into the Chinese social network, and to help them make effective cross-cultural adaptation and business decisions in the unfamiliar cultural environment of China.

Key words: Guanxi, network, business, survey

JEL codes: M14, Z13

I. Introduction

Guanxi is a Chinese word which is also recognized in Japan and Korea. In Chinese, Guan means a door, or “to close up” with those who are inside a group, and Xi can be interpreted to mean a joined chain. Thus, together, Guanxi can be translated as relationships and connections. In all the Chinese dominated societies in Asia, people use the word Guanxi to speak of someone who knows lots of people, who is well connected, and gets things done, not necessarily through formal channels. Thus Guanxi is a social dimension and a human factor.

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Despite the abundant opportunities presented by the Chinese market, many foreign practitioners have commented that operating in China is more complex and time consuming than should be necessary. A large amount of research into doing business in China recognizes the importance of cultural and institutional differences between China and the West. This research mostly identifies Guanxi, which can ensure that business will be successful and can help to build an organization's long term competitive standing, by minimizing the risks, frustrations, and disappointments (Hellstrom, 1997; Seligman, 1999; Kao, 1993; Luo, 2000).

While Guanxi is most properly associated with the Chinese Mainland, it is also associated with those economies with a predominantly Chinese culture such as Taiwan, Hong Kong or Singapore. The influence of the Chinese culture and therefore the phenomenon of Guanxi extends throughout East Asia (Lovett, *et al.*, 1999). A study of Asian economics by Naisbitt (1996) described the 53 million overseas Chinese in Asia as "the greatest entrepreneurs in the world," and claimed that they control 90 percent of the small and mid-sized companies in the Asia-Pacific Economic Cooperation realm (pp. 36-39). Weidenbaum (1996) reported that these overseas Chinese control assets of about US\$2 tn and generate an annual economic output of more than US\$500 bn. Kao (1993) referred to overseas Chinese entrepreneurs as the world's fourth economic power, along with the US, Europe and Japan, and summarized that they are bound together by Guanxi, a shared tradition, primarily a network of entrepreneurial relationships.

However, the existing research on Guanxi focuses on only two main areas: comparing the concept of relationship from Eastern and Western perspectives, and the importance and results of Guanxi from an overseas Chinese perspective. There is a need for further research, to provide understanding of Guanxi from a native Chinese perspective and to address the future trends of Guanxi. Therefore, this study is designed to shed light on three research questions: (i) How important is governmental and private Guanxi, respectively (ii) how to initiate and maintain a desired Guanxi network, and (iii) what Guanxi will be like in the future.

II. Guanxi: An Overview

1. The Ethicality of Guanxi

A fundamental premise of the Western ethical system is universal applicability to all people (McComb, 1999). From this perspective, justice means equal opportunity, equal access, and equal treatment. This perspective of equality is part of the Western thinking. Perhaps the best example of how deeply ingrained this perspective is in Westerners' psyche, can be found in the ideal of perfect competition in any introductory microeconomics textbook. Not only should the participants in such an economy have equal access to trading partners, but they should also have equal access to factors of production, and even to information (Luo, 1997).

Not coincidentally, it is from such a perspective that Guanxi would be considered unethical, and this interpretation influences how Westerners think and do business in China.

However, by simply comparing and contrasting these two business cultures, the ethicality of Guanxi can be interpreted in another way. First, these two business cultures suggest different steps and methods to do business. The Chinese believe that one should build the relationship first and, if successful, transactions will follow. To the Chinese, a signed contract merely marks the end of the first stage in business dealings. Changes in specifics are expected to be made over the years as unanticipated problems arise. Here, keeping promises is just because they have high personal regard for their business partners. In contrast, the Western management paradigm puts the transaction first. Relationships between participants to the exchange are regarded, at most, as a pleasant but secondary consequence of the transaction. For Westerners, keeping promises results from their respect for the recorded agreement, not the trading partners (Ai, 2005).

Secondly, these two business cultures place emphasis on different factors of business. For example, when meeting a person, Westerners tend to ask about his or her profession. The Chinese however, would ask where the person is from. Much goodwill can be generated if they both know someone in common. While such commonality is like a salutation to Westerners, for the Chinese it can be the basis for building a very close Guanxi. That is, the Chinese are less task-oriented and more human-hearted (Lovett *et al.*, 1999). They are more concerned with the harmony of the group, and show more sympathy for their group members. They believe that respect and caring for others results in ethical behavior and order in society. On the other hand, Westerners mainly focus on tasks to be performed and results to be expected. Respect and care for others is reserved only for those who have made the investments and passed the formal tests necessary to gain entry into the system. A Westerner would say that the Chinese cannot be trusted because they will always help their friends, and a Chinese would think that he would never trust Westerners since they would not even help a friend.

The third difference is the scope of the perspectives involved in these two businesses cultures, in terms of purpose and time. People from the West tend to focus on the smallest possible unit of economic exchange, a single transaction. This tendency also applies to ethical issues. Westerners are likely to ask whether a particular sale was subject to competitive bidding or whether a particular promise was kept. In contrast, the networks of Guanxi are forms of strategic alliance among individuals and entail very general access to resources and information. Members may exchange not only what they have, but also what other partners have. What matters is the whole pattern of the relationship (Seligman, 1999).

2. Initiating and Establishing Guanxi Networks

First of all, a Guanxi network does not have to be based on money. Members inside a network are more likely to define themselves as friends. Therefore, building one's own

desired Guanxi is not so different from making friends in China. Being dependable and reliable definitely strengthens a friendship, so also does it strengthen the initiation of Guanxi. Friends can count on each other in good and tough times. A good example is related to the 1989 political event in China. Foreign companies that stayed found their relationship with the Chinese strengthened as they were viewed by the Chinese as friends who did not abandon the Chinese when they needed friends (Seligman, 1999).

Gift giving or substantial assistance, furthermore, can be an effective method to initiate Guanxi. On one hand, it can show courtesy and respect from the donor to the recipient, and help to express the willingness of building a Guanxi network. On the other hand, it creates a sense of obligation by which the recipient will owe an obligation to the donor that should be paid back in the future, and the feeling of indebtedness is the key linking two parties in their Guanxi network (Lovett *et al.*, 1999). Banquet hosting and social gatherings may be another approach to build one's own network of Guanxi.

Moreover, sociocultural research studies supply much useful information on methods of starting a Guanxi network. Kipnis (1997) highlighted four overlapping bases: family members, relatives, locality, and friends, while Kiong and Kee (1998) identified six bases for building Guanxi networks: locality, fictive kinship, kinship, work place, social clubs, and friendship. Another persistent concern in the existence of Guanxi is locality. Home places in China mean the birthplace of the ancestors of one's father, and it is likely that Chinese people take locality links as an extended form of their Guanxi building base (Redding, 1993). When a Chinese person enters a new situation and finds that he or she has no connections, the first order of business is to establish one. Here, the common place of origin is in fact little more than an excuse to help new arrivals establish some beneficial relationships, find a job and a place to live, or borrow some money.

3. Maintaining Guanxi

In a Guanxi network, since an initial favor is surely granted when it is owed, it also means no more than the promise that the ledger will someday be put into balance. Therefore, paying favors back is important to keep the Guanxi network running. What happens when favors are paid? One surely cannot continue to seek favors indefinitely based on a historical debt, because when the debt is judged to be paid, the sense of obligation may cease. Thus, further obligations or voluntary favor giving should be presented for both sides to renew their Guanxi (Seligman, 1999).

A study from a piece of Sino-Singaporean Guanxi research (Ewing, 2000) summarizes that to maintain and nurture Guanxi requires a huge amount of effort, and it is mutual benefits, exchange of favors, mutual trust, sharing future business opportunities, and keeping in touch (frequent contacts) with partners that provide the key.

4. The Future of Guanxi Networks

Few studies indicate the future of Guanxi networks in Mainland China. Some business practitioners, however, believe that as China develops a better legal framework and infrastructure, and as some of the structural conditions for a relation-based society disappear, Guanxi could become less important. On the other hand, some of the sociology studies show that the cultural heritage will remain while the importance of Guanxi networks is declining.

Studies of business culture in Hong Kong or Taiwan are widely used to present examples of the survival of Guanxi in a modern and mature market. By comparing and contrasting these business behaviors with those of Mainland China, the conclusion may be drawn that more emphasis on material values with more demanding and assertive Guanxi partners is likely to be seen in the future, as Mainland Chinese society tries to gain a new moral foothold in an increasingly modern and open environment.

On the other hand, even the future trends of Guanxi are far from clear. Studies on the history of the educational system in Mainland China provide another avenue for further study on this issue (McComb, 1999). Because of educational system changes in the different time periods, the two generations in China, the one who received higher education before the early 1980s (above 45-year old), and the one who had or is having college/university education after the late 1980 (less than 40-year old), are theoretically different in terms of knowledge, attitudes, interests and opinions towards social and cultural issues, including Guanxi. These differences directly result in their different styles of management practice.

III. Methodology

1. Research Methods and Technique

As a formal study that involves precise procedures and data sources, a direct questionnaire is provided to respondents first. The questions in the survey have incorporated some of the instruments used in two previous Guanxi studies: Yeung and associates' survey of Hong Kong managers (1996), and Lily Wu's survey on New Zealand and China managers and entrepreneurs (2000). The questionnaire consists of instruction, a short list of questions about the participant's background, and eleven questions in three parts: the importance of Guanxi, elements of building Guanxi, and ways to maintain and enhance Guanxi, to ask about the base, interaction patterns, and the benefits of the Guanxi network. 120 questionnaires were distributed to each of the three different groups of Chinese: college students (age below 35), senior managers in Mainland China (above 45), and senior managers in Taiwan.

We designed these three sample groups in the hope of studying future trends in Guanxi in the Chinese Mainland. Based on McComb's (1999) research on Chinese education

systems and culture changes and differences in Taiwan and Mainland business cultures, the variants of key elements in this study between different age groups of Mainland Chinese, and between Taiwan and Mainland theoretically indicate the trend of some of the future changes in Guanxi in Mainland China.

The participant is requested to indicate the degree of agreement with the attributes listed in the survey by using a five-point Likert scale (anchored by 1=strongly disagree and 5=strongly agree). According to a lot of research on cultural study, the format of Likert scales tends not to be affected by different cultures for interpreting information (Albaum, *et al.*, 1987). Thus, it is expected that these participants would provide reliable responses in the current study. Furthermore, the translation-back-translation procedure (Wu, 2000) is adopted in developing the questionnaire used in different Chinese language contexts for the Chinese Mainland and Taiwan. The questions are first written in English, and then translated into Chinese by students from the Chinese Mainland and Taiwan at Hawaii Pacific University. The discussion among these Chinese students from different regions helps to translate the questions to match the different language styles of both Taiwanese and Mainland Chinese. After translating the questions back into English and carefully evaluating the connotative and semantic aspects of the differences, some minor adjustments are made. Finally, all 360 questionnaires for the three different groups were returned, of which 355 were valid.

2. Hypotheses

The hypotheses in this study can be divided into two types, in terms of their subject orientation and measuring approaches. First, Hypothesis One explores the similarities and differences for different types of Guanxi network (governmental and private), and for different age and geographic groups for the concept of Guanxi. The test for this hypothesis is conducted by evaluating the general pattern of the major Guanxi components with a 5 percent level of significance for the T-test with equal variances. The 5 percent level is to draw 95 percent accuracy from the data result, and the use of T-test of two samples with equal variances is because the Likert-scale answers all have the same interval between each level of answer, thus the equal variances (Kros, 2000).

Second, Hypothesis Two is to explore the variations in the manifestations of Guanxi under each group. Thus, the measurements for each variable in the corresponding questions from the survey are set to be above 0.60 from the correlation test, since according to Nunnally (1978), a criterion of correlation score higher than 0.60 could be suitable for exploratory study. Also, according to Kros (2000), a higher than 0.60 correlation score can present a linear relationship of two variables, and can lead to the conclusion that there is some relationship between the two.

IV. Data Analysis

1. Importance and Benefits of Guanxi Networks

Two areas of Guanxi importance and benefits need to be examined in this section. Firstly, to find out the importance of Guanxi with the government staff, the mean scores and standard deviation scores of each element are calculated and then summarized in Table 1. According to the table, the Guanxi network has the highest scores (3.75) on reducing business risks, providing access to market and customers, and helping with firms' legal troubles. Also, for these three elements, their standard deviation scores are the same, indicating that respondents in this group have exactly the same opinions about the value governmental Guanxi provides to create these benefits. Preferential treatment is also ranked very high. Reducing business expenses has the lowest mean score.

The same mean and standard deviation calculations are performed to examine the Guanxi importance and benefits in the private sector, and the results are also summarized in Table 1. While the two highest mean scores of private Guanxi benefits are from reducing business risks and helping to acquire customers and resources, the latter shows a very high standard deviation score of 1.19. This apparently indicates that many respondents either give this issue a low score or a high score. Also, having lower prices for resources and helping to sell lower quality products have the lowest mean scores.

In addition, the findings highlight some important benefits from these two Guanxi networks. It can be concluded that governmental and private Guanxi networks exist for different purposes. While the governmental Guanxi benefits the legal and regulative aspect of the business, the private Guanxi network is highly efficient in dealing with market competition. Therefore, while both governmental and private Guanxi networks are recognized

**Table 1. Senior Manager Group in the Chinese Mainland:
Measurement of the Governmental and Private Guanxi Network**

	Measurement of Government Guanxi		Measurement of Private Guanxi	
	Mean Score	Standard Deviation	Mean Score	Standard Deviation
Guanxi is more important than normal daily work	3.5	1.06	3.42	0.97
Guanxi is an important complement for your business	3.42	1.05	3.08	1.13
Guanxi is more important than everything you do daily	3.08	0.98	2.33	1.04
Guanxi helps to reduce business risks	3.75	0.73	3.17	0.81
Guanxi helps to get easy access to markets and customers	3.75	0.73	3	1.19
Guanxi can help with legal troubles	3.75	0.73		
Guanxi can help to get preferential treatments	3.67	0.96		
Guanxi helps to reduce business expenses	3.33	0.9	2.92	1.13
Guanxi can help you to get resources in lower prices			2.67	1.04
Guanxi can help to sell your lower quality products			2.42	0.97

as crucial business survival or success factors in China, the governmental Guanxi network provides more value and is more beneficial than the private Guanxi network. On the other hand, the private Guanxi can be very helpful after one's business is set up and when one is dealing with the competitive conditions which exist in China.

2. Analysis of Different Sample Groups for Guanxi Importance

The T-test of two samples with equal means is performed to examine the difference between governmental and private Guanxi benefits and importance. According to the T-test technique, when the T-Stat. scores fall outside of the T-Critical region, the hypothesis will be rejected.

We compared the T-Stat scores with the T-Critical scores (as shown in Table 2), and found there are no significant differences between the three groups for “more important than normal daily work”, “reduces business risks”, “access to market and customers”, and “preferential treatments”. The groups and elements with significant statistical differences are summarized in Table 3.

To detail these two elements with significant differences, Figure 1 is designed to show the differences for their mean scores.

It reveals that Guanxi network will be less useful or beneficial in reducing business

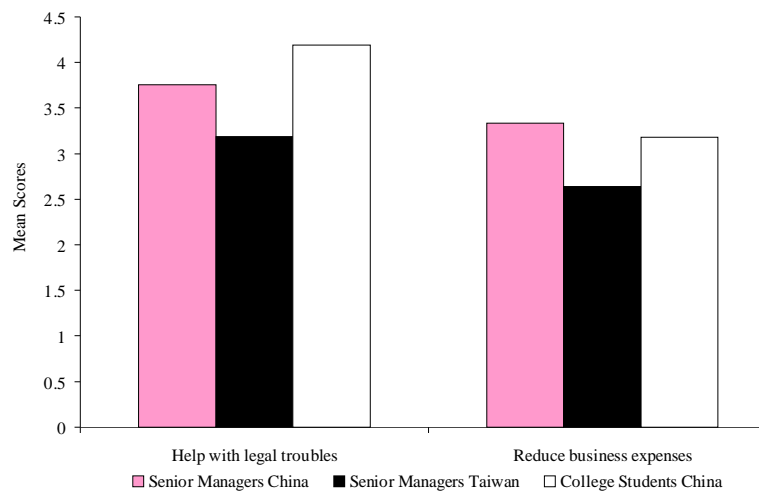
Table 2. T-test Results for the Three Groups for the Importance in the Governmental Guanxi Network

T-test: Two-Sample Assuming Equal Variances	Types of Scores	Senior Mangers Mainland Vs Taiwan	Senior Managers Vs College Students (Mainland)
Guanxi is more important than normal daily work	T-Stat	0.376	-1.913
	T-Critical	1.994	1.99
Guanxi helps to reduce business risks	T-Stat	1.427	-1.603
	T-Critical	1.994	1.994
Guanxi helps to get easy assess to markets and customers	T-Stat	1.177	-1.643
	T-Critical	1.995	1.995
Guanxi can help with legal troubles	T-Stat	2.227	-2.960
	T-Critical	1.994	1.994
Guanxi can help to get preferential treatments	T-Stat	1.963	0.148
	T-Critical	1.994	1.994
Guanxi helps to reduce business expenses	T-Stat	3.349	-2.278
	T-Critical	1.994	1.994

Table 3. The Groups and Elements with Significant Difference for the Governmental Guanxi

T-test: Two-Sample Assuming Equal Variances	Senior Mangers Mainland Vs Taiwan	Senior Managers Vs College Students (Mainland)
Gaunxi can help with legal troubles	Different	Different
Guanxi helps to reduce business expenses	Different	Different

Figure 1. Mean Scores of Significant Different Elements in Governmental Guanxi



expenses in the future compared to now, since the college students who will be the future managers in the Chinese Mainland believe this issue is of less importance, and would be more likely to carry this thinking when they work in the management field. Taiwanese senior managers also believe that it is less likely that Guanxi network provides a benefit to reduce business expenses. It also shows that having a Guanxi network with government agencies or key persons will be less useful in reducing business expenses in the future Mainland Chinese business environment. On the other hand, as indicated by Figure 1, the Guanxi network is believed by the college students group in the Mainland to be more beneficial in helping with firms' legal troubles, while senior managers in Taiwan give it a lower score. This reveals that in the business environment of the Mainland, where there is a lack of

Table 4. The Groups and Elements with Significant Difference for Private Guanxi

T-test: Two-Sample Assuming Equal Variances	Senior Mangers Mainland Vs Taiwan	Senior Managers Vs College Students(Mainland)
Guanxi is more important than daily work	Different	Different
Guanxi provides capabilities for acquiring resources in lower prices	Different	Different
Guanxi is able to provide access for selling your product (even it not good as others)	Different	Not Different

regulations and proper laws, compared to Taiwan, the Guanxi network will be more important in helping with legal problems in the future.

For analyzing the private Guanxi benefits and importance from the different groups, T-tests for two-sample with equal variances has also been conducted (Table 4). By comparing each element's T- stat and T- critical scores, the elements and groups with significant differences are found.

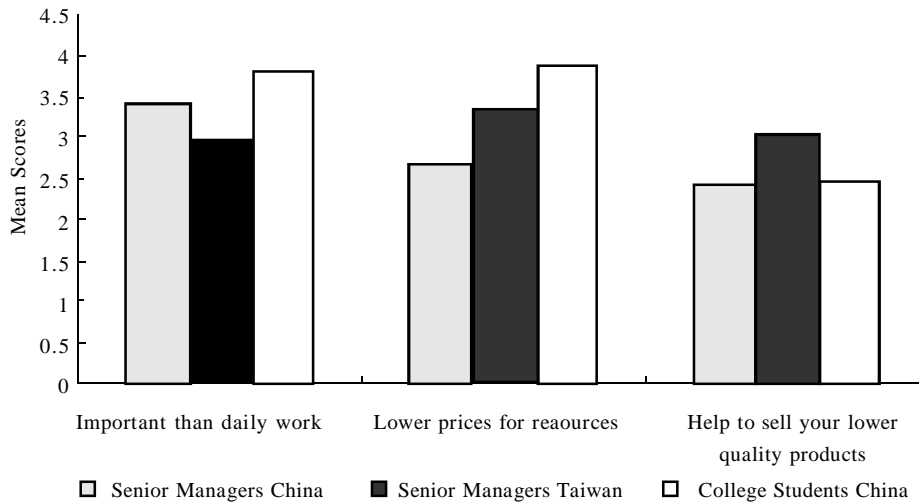
To further understand the elements for different groups with statistically significant differences, by comparing their mean scores, Figure 2 illustrates the direction in which Guanxi will evolve in the future.

According to Figure 2, having a good private Guanxi network with private firms will be more beneficial in helping to sell one's lower quality products, and to lower the cost of resources needed, since both senior managers in Taiwan and college students in the Mainland rank these two elements higher than the senior manager group in the Mainland. On the other hand, while the Taiwan senior manager group believes that Guanxi with private firms is less important than senior managers in the Mainland, college students in the Mainland give the highest rank for this issue. This, however, indicates that in the future China, Guanxi with private firms will remain important if the business environment stays the same as today, or it will become less important if there is a continuing western exposure in China and a growing number of new laws and regulations coming out to regulate the market.

3. Analysis of Different Sample Groups for Guanxi Maintenance

For the study of how Guanxi networks are established, different groups are compared by their percentage scores. With 100 percent, the senior managers in the Mainland believe that

Figure 2. Mean Scores of the Significant Different Elements in the Private Guanxi

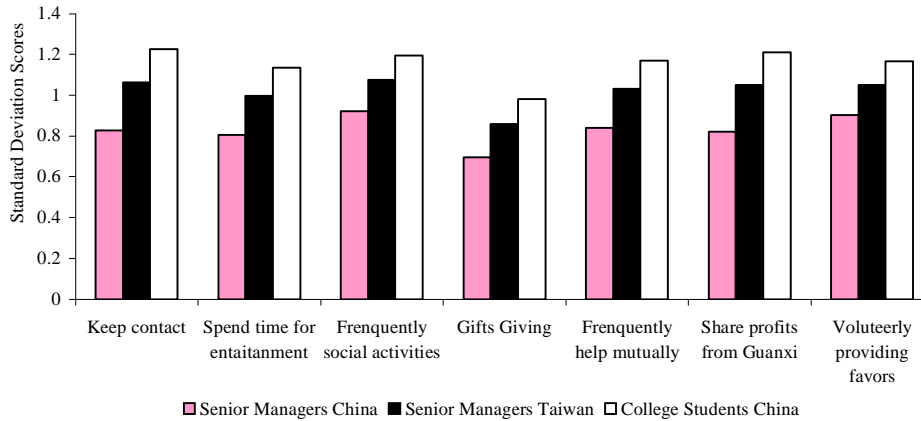


Guanxi should be initially built by being introduced by others, not by approaching directly, or by other ways. Mutual help (75 percent), trust (83 percent), friendship (67 percent), help in bad situations (67 percent), and social acceptance (67 percent) accounted for the largest scores for the Guanxi building process.

The standard deviation test is performed to compare different groups in Guanxi maintenance. Figure 3 is used to present these elements in the form of standard deviation scores.

Figure 3 shows that, for each Guanxi maintaining element, both the senior manager group of Taiwan and the college student group of the Mainland give a lower score than that of the senior manager group of the Mainland. That is, the current Guanxi maintaining methods or elements will become less important and useful in keeping a good and lasting Guanxi in the Mainland in the future. However, shared profits from Guanxi, frequent mutual help, and keeping contact are ranked the highest in mean scores for all three groups, indicating that these three elements will continue to play an important role in retaining a good Guanxi network in China. Figure 3, on the other hand, reveals that the future Guanxi maintaining tasks will be much more complex, due to the higher variances (higher standard deviation scores) for these elements and methods from the Taiwan and college student group. That is, while some people see these Guanxi elements as less important and useful, others will continue to appreciate and use them.

Figure 3. The Standard Deviation Scores for the Different Groups for Guanxi Maintenance



V. Conclusions

While Western business culture clearly separates the world of individuals and organizations, widely using contracts as the governing authority, and focusing mainly on tasks to be done, Chinese business culture is more human-hearted, based on respect and care, and long-term-oriented with more concern for the benefits of members of the entire network. Of course, these two cultures have been influencing each other. Perhaps the most significant example is the development in the field of marketing, the growing emphasis by the West on relationship marketing. Just as in a Guanxi network, relationship marketing is supposed to reduce transaction costs, facilitate cooperation of channel members and retain customers, while emphasizing formal contracts and long-term organizational goals.

Moreover, this study finds that a Guanxi network is an evolving cultural and social phenomenon. The Guanxi concept is likely to mature, becoming less visible and more sophisticated, and with more emphasis on business outcomes than on political ones. Therefore, business practitioners should be prepared for their business partners' tendency to escalate and prolong reciprocation in the favor exchange, and be willing to follow the same rule to show their sincerity, while using their governmental Guanxi as an important source for pursuing competitive advantage in dealing with laws and regulations in China. Also, since one's blood relationships, locality, and age will have less influence in this process, the focus should be on presenting their economical and

political status, showing their willingness and ability to offer help and worthiness to be trusted to key persons from either government agencies or private firms. On the other hand, it is important for business practitioners to keep in mind that, in the future, there will not be a single and widely accepted strategy to retain and enhance their Guanxi networks. Therefore, approaches for maintaining and enhancing an existing Guanxi network should be focused on individual preferences and needs of partners inside the network. For future Guanxi networks, many things become uncertain, but one thing is sure: Guanxi relationships, with their unique code of conduct, will always be an ingredient of doing business in China.

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