

Guanxi Networks in CHINA

How to be the spider,
not the fly

Wilfried R. Vanhonacker

Several years ago, a large US financial consulting and auditing company thought it wise to employ a relative of the PRC finance minister as one of its senior representatives in China. With the institutional restructuring of all major banks on the books, the consulting company was convinced such a personal relationship (*guanxi*) would be an asset.

When a major PRC policy bank put out a tender for a restructuring project financed by the World Bank and the Asian Development Bank, the company promptly put in a bid. But contrary to the company's expectations, it did not win the tender. The bank apparently feared that choosing a company affiliated with the finance minister's relative might create political difficulties for the finance minister, in this case the perception of favoritism.

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Though the US consulting firm believed that bringing the finance minister's relative on board would be an asset, the client for the project viewed the connection as a liability. Indeed, staying away from the minister's relative potentially strengthened the PRC policy bank's relationship with the minister. Because the policy bank carefully avoided creating the impression that the minister favored his relative's company, the minister could trust the bank not to create political liability for him in the future—and to watch his back in the China *guanxi* game.

Spinning the web

Guanxi is part of the fabric of Chinese society. Personal relationships are central to every aspect of Chinese society, including business. In the West, relationships grow out of deals. In China, deals grow out of relationships. The cultivation of *guanxi* is an integral part of doing business.

In China, a network of multiple relationships is necessary because of China's constantly shifting political landscape, fragmented sources of authority, and the businessperson's resulting need to be an "insider" at all levels of this hierarchical society. Furthermore, multiple relationships serve as coping mechanisms for the obligations arising from each individual relationship.

Each of the relationships in a *guanxi* network has its own particular characteristics, and each entails a peculiar protocol. Friends in China who help you in your business dealings are not

like friends elsewhere. Western managers can relate the benefit sought with the bond created to achieve a given objective. But Westerners are generally unaware that in China social relationships may mean much more than what Westerners intend because they are so fundamental to the Chinese national character. To Westerners, relationships help the individual; to Chinese, they also define the individual. In China, if you are related to a senior official, you will be treated with more respect and accorded more face. In short, the status of the people with whom you have relationships helps define your status.

Business literature considers *guanxi* a necessary but insufficient condition for success in China: it can help but won't hurt. But my 15-plus years of experience working in China have made me aware of the darker side of *guanxi*: a *guanxi* network can be a spider web in which one can quickly get entangled.

Reciprocity, obligation, and ethics

Guanxi networks entail reciprocity, obligation, and indebtedness among actors, as well as the aesthetic protocol that comes with cultivating these relationships. Chinese people are accustomed to thinking about these obligations, how they are incurred, and how they are paid off. One way to gain prestige and improve status is to be well-versed in situational and relational ethics, that is, knowing when and how to use *guanxi* and when and how to pay back the resulting indebtedness. Few Western managers understand that their status and respect, what Chinese call "face," are gained from knowing how to act. Even fewer know and understand the liabilities created by *guanxi*.

The essential characteristic of a successful relationship in China is the trading of efficiency and autonomy (political or institutional) for personal dependence. Knowing somebody able to reduce interference for your company or smooth your approval process creates personal indebtedness. This indebtedness can be a severe liability, as obligation and reciprocity move center stage after your goal has been reached.

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Indeed, maintaining relationships once they have served your purpose requires a deep understanding of the protocol and obligations that come with social connections. The people you know might be important, but what you know about those people is even more important. Such knowledge will help you to avoid being caught in the web of personal relations you have to spin to build and protect your business interests in China.

For instance, in some industries, state-owned enterprises (SOEs) have been realigning themselves with local governments, much to the dismay of central government agencies and ministries. In one case, a central ministry suggested an SOE as an ideal joint venture partner to a foreign multinational. Only later did the multinational find out that the ministry’s main interest was to wrestle back some control over the SOE. (The ministry believed that coming up with a good foreign partner would increase its influence over the SOE.) The foreign partner was totally unaware of the power struggle until much later, when it became apparent that the SOE was not the ideal partner for the business in China. The minister had developed a close and cordial relationship with the CEO of the foreign company, but the CEO was totally unaware of the minister’s agenda. The foreign company had even prided itself on its close relationship with the minister.

To most Chinese, *guanxi* has its own moral code and serves a necessary social function. Westerners see *guanxi* as “using” others which, according to Western morality, is unethical. But in China, “using” a relationship creates an obligation to do something at a later date. As long as you eventually fulfill that obligation, you are considered ethical. It is the ethical dimension that sets a *guanxi* relationship apart from money-based or commodified transactions. *Guanxi* is not the same as corruption because *guanxi* is relation-focused whereas corruption is transaction-focused. And the relational ethic of *guanxi* implies that it cannot be bought.

In the current social climate in China, there is, however, a perception of unethical behavior in *guanxi* relationships because they are often used to hide corrupt practices. People with a close relationship will be less likely to reveal corrupt practices because the relationship supersedes the corrupt transaction. For example, one of Unilever plc’s purchasing agents had extremely good relationships with a few suppliers; only recently did Unilever discover that this purchasing agent was also supplying manufacturers that were illegally copying Unilever’s products. The suppliers had no incentive to blow the whistle; the *guanxi* relationship was only another disincentive. But corrupt practices challenge moral integrity, which is an essential element of a true *guanxi* relationship.

Using *guanxi* to your advantage

Guanxi can aid a distinctive strategic positioning in China’s competitive environment, and thus it can become an important ingredient in business strategy. But it requires a careful strategy and implementation plan of its own that needs to be aligned with the firm’s business strategy; like any asset, it must be managed to make sure it does not become a liability. A good understanding of *guanxi* is thus crucial for Western firms intending to succeed in business in China.

Building and managing *guanxi* networks

● Strategic design

Building *guanxi* networks requires strategic thinking. First, a company must have a business strategy in place. This strategy will pinpoint short- and long-term *guanxi* targets and needs. Good *guanxi* is not a substitute for a sound business strategy; it is merely a tool to help implement a business strategy more effectively.

Second, companies need to think about how they will cope with the indebtedness created by *guanxi*. Coping strategies can involve deniability, neutralization, complementarity, and face.

Deniability involves the ability to hide or to put distance in a relationship through, for example, the use of trusted intermediaries. Neutralization refers to the ability to balance debts and obligations. Complementarity involves multiple parallel relations to guarantee achieving the instrumental objective. The concept of face comes into play here in the sense that, in building a network, you have to be careful not to create liabilities for the *guanxi* target (unless that is the explicit objective) and to think about how you will offer a way out. Needless to say, this requires an insider with a network of informers to keep you abreast of developments.

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● Building the network

Establishing a *guanxi* network consists of four steps: targeting, scouting, signaling, and packaging. Targeting refers to identifying the key person with whom you want to build a relationship. Who that person will be depends on your instrumental objective. For instance, a manufacturer that wants to supply the seats for China's passenger jet must figure out who will make the procurement decision.

Hence, you must first define your objective. It is important to maintain a strategic view and not identify targets on a case-by-case or as-needed basis, which would only signal a transaction-focused relationship and undermine your integrity. A better approach is to identify targets that could be useful over a broader time horizon. A lasting relationship is more valuable and also gives the target an opportunity to do more than one potential favor or the opportunity to say no on one occasion without losing face and to maintain integrity in a politically sensitive environment. A broader, long-term view also gives you a better perspective on the *guanxi* network you need to secure help, support, or protection.

The next step in building a *guanxi* network is scouting. This involves identifying a common basis for a relationship and figuring out if intermediaries will be necessary to have that basis with the target. *Guanxi* relations typically develop among individuals who have some element of their pasts in common, for instance, they are classmates or are from the same hometown.

This common basis provides the familiarity on which to construct a *guanxi* relationship. The familiarity provides assurance and trust and creates a barrier for competitors and adversaries. It is important to realize that the most common basis for a relationship is typically developed prior to entering official Chinese society, that is, in school. Even today, when Chinese talk about their connections, they will often use the term "classmates."

Fortunately for Western businesspeople, *guanxi* networks have quite an open architecture. Indeed, Chinese are constantly looking to build and extend their relationships to achieve instrumental objectives, enhance their options in settling obligations, or manage those obligations. In that sense, Chinese are practical and will not exclude anyone without an assessment.

Still, it is necessary either to create or define a common basis for the relationship or to construct a relationship with the help of intermediaries who have a common basis with the *guanxi* target. Commonality can be woven around business interests or personal interests. The use of intermediaries is quite common among Chinese as it provides more control over face.

Another point to keep in mind is that the open architecture and the lack of loyalty in *guanxi* relationships allows a Chinese person (or a Westerner) to develop relationships that appear to be in conflict. One important implication of this is that there is no first-mover advantage in establishing *guanxi* with a particular person unless the relationship is very close and of a kinship-type where loyalty and duty become key, which renders conflicting relations impossible. Going back to the example at the beginning of this article, if the bank had engaged the consulting company, the minister would have had to give the project to the relative. No matter how strong the *guanxi* is between the minister and other candidates, the bloodline—because of the duty and loyalty ethic—always comes first. The policy bank understood this, and knew that selecting the consulting company would be forcing the minister's hand.

Once the blueprint of the network is ready, you need to signal to the target the interest in establishing a relationship. Signaling is best done in the context of a broader social event so that the target is not singled out. Perhaps the target can be invited along with a delegation visiting the company or with other guests when your CEO is in town. But the second option would only be appropriate if the target and the other guests are of equal rank in the Chinese hierarchy. The key is to find a social context where the target can easily justify attending the event without raising any suspicion. How one signals demonstrates one's sincerity, integrity, and trustworthiness—or lack thereof. The key to selecting

Overseas Chinese and *Guanxi*

Overseas Chinese can play a role in building *guanxi* networks. They are (or should be) familiar with *guanxi* networks and the protocol, and often they can rely on a traditional common basis. But one issue should be kept in mind: non-Chinese Westerners always have an extra degree of freedom over ethnic Chinese in the *guanxi* game. That extra degree of freedom comes from the very fact that they are foreigners; they have an excuse not to be totally familiar with the intricacies of relational ethics so important in social relationships in China. Ethnic Chinese don't have that freedom; they are Chinese and they are supposed to know. No face is lost when a Westerner makes a mistake; after all, he is a foreigner and doesn't know. The same cannot be said when an ethnic Chinese makes a mistake.

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the appropriate signal is subtlety, as you do not want to jeopardize a possible relationship or have the target lose face because he or she must decline the invitation.

Once the signal has registered and a link has been established, then the packaging begins. Straightforwardly requesting a favor or help is not proper protocol. You must carefully package the instrumental objective, so as not to raise suspicion in the mind of the target that you seek a purely instrumental relationship. You must also weave the ethical and aesthetic values of proper *guanxi* around the instrumental value of the *guanxi* relationship. In the end, you can only hint at what you would like the target to do.

● **Maintaining *guanxi***

The maintenance of *guanxi* relationships revolves around expectations and continuity. The *guanxi* target will expect you to possess moral integrity, not expose the target or create any vulnerability, not abuse the target or the target's network, and watch out for the target. The target will also presume that the relationship will be maintained continually. Many foreign managers in China believe that it is enough to establish a relationship and that they then can call on the target as needed. Nothing could be further from the truth. *Guanxi* is not an emergency brake. If you call on the target and activate the relationship only when there is trouble, you deprive the target of opportunities to orchestrate support or build roadblocks to prevent trouble. Once there is trouble, it is often too late to remedy the situation and your contacts cannot and will not act on your behalf.

● **Managing *guanxi***

One crucial aspect of managing *guanxi* is to make sure that you separate the instrumental objective, once achieved, from the relationship—to disassociate the benefit gotten from the target. If the target is a senior political figure, the benefit gained could become a liability if and when that figure's political star fades. And in China's constantly shifting political landscape, this is a significant risk. But one must exercise extreme care so as not to damage the relationship in the process of disassociation.

To disassociate a benefit from a person, you must focus on the relationship. This is where it becomes important to know about your target. People always come first in China, otherwise there is a loss of face. When Eastman Kodak Co. in 1998 won approval for its company-limited-by-shares (CLS) deal (the first in China), it never mentioned the essential role former Premier Zhu Rongji had played. Kodak continued to deal with Zhu as China's premier and did not focus on the CLS but on other matters in its dealings with the premier. Separately, Kodak aggressively supported academic research in China on the benefits that a CLS, as a foreign direct investment vehicle, could bring to China.

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The frequent rotation of Western expatriates in China makes managing the carryover of *guanxi* relationships important. The carryover process involves the introduction of the new arrival into the network built by his or her predecessor. But indebtedness cannot be carried over. All that can be achieved is the establishment of a common ground between the new arrival and the *guanxi* targets of the predecessor. There is no *guanxi* relationship yet between the newcomer and the old target. The old target realizes this and could sever the link at this point. Frequent rotation of expatriates in China flies in the face of the continuity so fundamental to the *guanxi* game. Companies can maintain continuity and obligations by integrating returning key expatriates into a China advisory body. This way, companies can keep their returned expatriates actively involved with China and call upon them when their *guanxi* connections are needed.

The future of *guanxi*

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. But the cultural heritage will remain. We only have to look at Hong Kong or Taiwan to see *guanxi* survive in modern, rule-of-law societies.

As mainland Chinese society tries to gain a new moral foothold in an increasingly modern and open environment, we are likely to see more emphasis on material values with more demanding and assertive *guanxi* partners. The *guanxi* concept is also likely to mature, becoming less visible and more sophisticated, and with more emphasis on business outcomes than on political ones. But one thing is sure: *guanxi* relationships, with their unique code of ethics, will always be an ingredient of doing business in China. 完

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