

## Chapter 8.19

# Embracing Guanxi: The Literature Review

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### ABSTRACT

Guanxi is deeply ingrained in Chinese society and business etiquette; therefore, it is critical to understand and appreciate it to gain a commercial foothold in China. This paper explores the fundamental differences between Chinese and Western approaches to business dealings, to identify the factors that make it difficult for Western managerial practises to adopt guanxi. The authors identify the differences in the perception of trust in both societies and how this ultimately leads to clashes in cultures. However, there is also a need for Western practices to be more flexible and appreciate guanxi and its implications if multinational corporations are to succeed in China. The paper concludes by suggesting a possibility for both approaches to co-operate well, given the relative success of each approach in their respective cultures.

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### INTRODUCTION

Since 1978, China's progress in economic reform has been one of the great economic success stories of the post-war era. China has become the world's seventh largest economy and second largest recipient of foreign direct investment (OECD, 2008). China's performance is all the more remarkable in that its reforms have been gradual and its development has occurred despite extensive, though declining, state ownership and intervention in the economy. The accession of China to the World Trade Organisation (WTO) marks an important milestone along the reform path.

China has been liberalising its international trade and investment policies since the mid-1980s and is now as open as some present WTO members. Although China stands to gain significantly from the opening of its export markets under the terms of its accession, the depth and breadth of its commitments to liberalise access to its domestic

economy are acknowledged to be more extensive than those agreed to by previous adherents to the WTO. This willingness reflects the fact that opening to international markets promotes market discipline, access to technology, and other qualities that have been important goals of domestic economic reforms. In this respect, WTO entry is a complementary aspect of the next phase of China's reforms.

Globalisation has led to opportunities for corporations to expand their businesses across borders and extend their reach into new markets. This makes understanding culture and its implications on business in the international arena vital for success. China is fast becoming a world superpower, but this new land of opportunity is only open to those who fully appreciate the complexities of business culture of the country. In pursuit of deeper understanding of what are the underlying cultural differences between Chinese and Western managerial approaches, this literature review attempts to explore the concept of "Guanxi," its origins, links to the Chinese societal system and criticisms on its implications on business practises – especially in regards to interactions between Chinese and Western firms. The literature attempts to identify the factors that may make it difficult to integrate 'guanxi' into Western managerial practise and in doing so investigates the differences in grassroots culture and business culture between Chinese and Western societies.

## **FOUNDATIONS OF GUANXI: THE LITERATURE REVIEW**

While it is emphasised in the Western concept on "what you know," refers to technological expertise, including the price and quality of tendered product or service, it is emphasized in Confucian societies on "who you know," which refers to personal connections with the appropriate authorities or individuals. These connections are known in Chinese as *guanxi*, which is believed to be a

striking feature that helps to enter a profitable and growing Chinese market. Thus, the issues of what indeed *guanxi* is and how it works in effect thus have become focal discussions

*Guanxi* literally means relation or relationships, ties or connections – and this already establishes the foundation on which to understand the Chinese approach to social network building and ultimately – business relationships. According to Pablos (2006) the origin of *guanxi* relates to the Confucianism heritage of Asian countries and Chinese communities in non-Asian countries. According to it, five major relationships dictate all relationships: Emperor–subject, father-son, husband-wife, elder-younger brothers and senior friend- junior friend. To ensure social harmony, order and stability, appropriate behaviours are needed. Lee et al. (2006) states that "With a history of more than 2500 years, Confucianism has exerted a fundamental influence on the Chinese and East Asian modes of thinking and way of behaving." Thus, by definition, 'Guanxi' embodies this influence, and so it is not surprising that "Guanxi is deeply embedded in the mindset of Chinese and is in every aspect of their personal and organisational interactions" (Park & Luo, 2001). The basis of these relationships also confirms Asian countries such as China, Japan, Korea, Taiwan and Singapore as relatively high power distance countries.

*Guanxi* is a good example of the development of cultural and economic dimensions. The context of cultural power includes intellectual factors (such as technology, education, etc.); spiritual factors (such as ideal, belief, ethic, value, etc.) and the social-cultural network affect our daily life along in addition to the power of traditional culture (Gia, 1998). Economics and culture are not developing as two parallel lines. They interact and affect each other reciprocally. Based upon the economic development collaboration, productivity increase, and social progress, the power of various cultures integrates and externalizes with the need of overall development from the power

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