

DRAGON BUSINESS  
HOW THE TRADITIONAL CONCEPT OF ‘GUANXI’  
WORKS  
IN MODERN DAY CHINA

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## **Abstract**

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Dragon Business

How the traditional concept of 'guanxi' works in modern day China

There has been undoubtedly a rapid economic growth in China over the last few decades and globalization has affected many business practices in China. Therefore this study addressed the interesting question of how the traditional concept of 'guanxi' works in modern day China. This was investigated through the lived experiences and perceptions of how Hong Kong executives establish business relationships in China. This research is important because 'guanxi' has often been associated with the success factor of business practices in China. Through a qualitative research methodology this research found that the practices of 'guanxi' take a changing and integrated approach. While some elements including favours and benefits have changed to become more indirect, less materialistic and depend on trust, other elements like socializing, hierarchy and the long term orientation in a business context have decreased in importance. Further the different experiences in the government sector, different company size, geographic locations in China, as well as the emergence of a new generation, have shown that the formation of networks cannot be generalized, but take different approaches depending on the situation. The significance of this is that 'guanxi' is less important for large organizations and the new generation of Western influenced managers in China. Finally while experiences of 'guanxi' change, they take a more international perspective while maintaining some traditional elements such as face. This suggests that Chinese business practices combine and accept apparent opposite values of international and traditional practices.

Dedicated to

Carolyn and

Cassandra

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# List of Contents

	Page No.
<b>Abstract</b>	<b>ii</b>
<b>Dedication</b>	<b>iii</b>
<b>Acknowledgements</b>	<b>iv</b>
<b>List of Contents</b>	<b>v - vi</b>
<b>List of Tables and Diagrams</b>	<b>vii</b>
 <b>Chapter 1</b>	
<b>Introduction to the Thesis</b>	<b>1-12</b>
Introduction	1
Research Aim and Objectives	2
Structure and Background: Relevant Literature	4
Structure and Background: Methodology	8
Summary	11
 <b>Chapter 2</b>	
<b>Literature Review Part 1: Culture</b>	<b>13-28</b>
Introduction	13
Anthropology	14
Definition of Culture and National Culture	16
Conclusion	26
 <b>Chapter 3</b>	
<b>Literature Review Part 2: Chinese Culture and the Concept of ‘Guanxi’</b>	<b>29-61</b>
Introduction	29
Chinese Values – Based on the Historical and Social Background of China	32
Major Economic Changes in China and Hong Kong	36
Background and Formation of ‘Guanxi’	40
Definitions – Levels, Bases, Types	44
Definitions – Key Elements and Dimensions and Ways to Build and Maintain ‘Guanxi’	47
Benefits and Advantages, Risks and Ethical Issues of ‘Guanxi’	54
The Changing Nature of ‘Guanxi’	58
Conclusion	61

<b>Chapter 4</b>	
<b>Methodology</b>	<b>62-87</b>
Introduction	62
Research Method	63
Planning Stage	68
Conducting the Interviews	78
Analysis of Data	82
Ethical Consideration	84
Conclusion	86
<b>Chapter 5</b>	
<b>Findings and Analysis</b>	<b>88-150</b>
Introduction	88
Findings through the Thematic Analysis	90
Business ‘Guanxi’ Experiences within in the Industry	93
Recent Changes Affecting Business Practices in China	119
Business ‘Guanxi’ Experiences with the Government	123
Perceived Differences due to the New Generation	127
Perceived Differences due to the Geography in China	130
Perceived Differences due to Company Size	138
Conclusion	142
<b>Chapter 6</b>	
<b>Conclusion and Summary</b>	<b>151-166</b>
Summary of Findings	151
Limitations of this Research	161
Recommendation for Further Research	162
Managerial Implications and Recommendations	164
Contribution of the Research	165
<b>Appendices</b>	
Appendix 1: Interview Guide	167-168
Appendix 2: Introduction to the Interview	169
<b>Bibliography</b>	<b>170-189</b>

## **List of Tables**

	Page No.
Table 1: Dimensions of Culture	24
Table 2: Confucius' Five Basic Human Relationships	33
Table 3: Cultural Change in China	39
Table 4: Background of 'Guanxi'	43
Table 5: Characteristics of 'Guanxi' and Tools How to Build and Maintain 'Guanxi'	53
Table 6: Benefits of 'Guanxi'	54
Table 7: Background of Respondents	74

## **List of Diagrams**

Diagram 1: Hofstede's Cultural Layers	21
Diagram 2: Trompenaars and Hampden-Turner's Layers of Culture	22
Diagram 3: The Dynamic Top-down-bottom-up Process across Levels of Culture	23
Diagram 4: Spider Web of Interlinked Cultural Values and Practices	27
Diagram 5: Thematic Analysis: Map of Emerging Themes	91
Diagram 6: Building Blocks of Business 'Guanxi' Experiences within the Industry	93
Diagram 7: Interlink of the Building Blocks of 'Guanxi' Practices	143

# **Chapter 1**

## **Introduction to the Thesis**

### **Introduction**

The study of culture is a very vast and complex area of research. It has been argued by Bond (1991), Hofstede (1980, 2001) and Trompenaars and Hampden-Turner (1993, 1997), that cultural differences of people affect the work and business activities. In particular Chinese culture has received widespread academic attention over the past few years, which includes extensive studies by authors such as Huang (2008), Child and Warner (2003) and Yan and Sorenson (2006). Further it has been argued by Chow and Ng (2004), Fock and Woo (1998) and Park and Luo (2001) that Chinese culture still influences how business is conducted in modern day China. To explore the complexities surrounding the influence of Chinese culture, it is the intention of this research to focus specifically on ‘guanxi’, the interpersonal relationship and connections between business people. The objective of this study is to explore how to establish business relationships with Mainland Chinese, which has been investigated through the experience of Hong Kong executives conducting business in China.

Firstly it is important to study ‘guanxi’ because the practice of ‘guanxi’ has often been linked to the success of a business in China (Lee and Ellis, 2000; Park and Luo, 2001; Su *et al.*, 2007; Xin and Pearce, 1996). As an increasing number of Western businesses move to China, it is necessary to understand the concept of ‘guanxi’, as it ultimately affects the success of a company. Further the recent economic changes in China have influenced the way business is conducted (Child and Warner, 2003; Chow, 2006). Therefore it is necessary to explore how companies can still be successful within the fast changing economic climate. Finally some authors argued that the practice of ‘guanxi’ will diminish over time (Chow and Ng, 2004; Guthrie, 1998), others argued that ‘guanxi’ will increase (Bian, 1994b; Yang, 1994) or become more commercialized (Luo, 2008; Wank, 2002). This study has explored how the traditional



concept of 'guanxi' works in modern day China. This was examined through the lived experiences, practices and perceptions of Hong Kong executives and how they experience the network formation in China. Overall the important elements of 'guanxi' and the recent changes have been identified, in order for companies to be aware how these changes may affect their business activities in China.

## **Research Aim and Objectives**

The aim of this research is to contribute to the debate of Chinese cultural values by exploring how Hong Kong executives experience the practice of 'guanxi' when conducting business in China. Whilst there is extensive literature on how to do business in China (Hutchings and Weir, 2006; Hwang 1987, Pang *et al.* 1998) as well as Chinese business etiquette there is little consensus about whether traditional cultural dynamics still prevail whilst conducting business in modern day China. In addressing this question this thesis specifically focused upon the experiences and perceptions of Hong Kong business executives doing business in China. As the main aim is to explore how to build relationships and form business networks in China, Hong Kong executives have been chosen due to their experience in building business relationships in China. Therefore they are the right target persons to be interviewed. It would obviously not be appropriate to ask Mainland Chinese executives how somebody else establishes business relationships with them. Further Hong Kong has changed in recent years from being primarily a manufacturing hub to one which is mainly a service oriented provider, as well as the main gateway to China for many businesses. Therefore Hong Kong has been chosen to conduct this study, as Hong Kong is an important location to research business practices in China. Further as many economic changes have taken place in China, the question emerged whether the practice of 'guanxi' as an important element for success of businesses in China has changed.

## Guanxi

Firstly this research explored how to create business relationships and form networks in Mainland China. In addressing this theme, the following questions highlighted the experiences and perceptions of Hong Kong executives conducting business in China:

- How do Hong Kong executives experience, practice and perceive ‘guanxi’ in China?
- How do Hong Kong executives build up the business relationships with Mainland Chinese?
- How do Hong Kong executives maintain the business relationships with Mainland Chinese?

## Recent Changes

This research explored how the traditional concept of ‘guanxi’ works in modern day China. Due to the rapid economic growth more international practices may have influenced and changed the business practices in China. In order to explore possible recent changes, the researcher investigated the current experiences and perceptions of Hong Kong executives while conducting business in China.

Academic literature has revealed the emergence of several contrasting themes. While the majority of studies indicate that ‘guanxi’ assists in the smooth expansion of business success and practices, there is also evidence to suggest that ‘guanxi’ may present a general challenge for Chinese companies, and may now be seen as a potential burden, or even viewed as a practice related to corruption. Added to this, is the fast changing competitive global market where longstanding practices and relationships, which are ‘guanxi’ built, could well be beginning to diminish (Chow

and Ng, 2004; Lai, 2001). Especially after the major economic developments in China, there may be many changes, which were explored through the following focus during the interviews:

- Have the business experiences of building relationship in China changed recently?
- Which experiences and elements of ‘guanxi’ have changed or become more or less significant?

The two main themes and objectives of this research are how Hong Kong executives experience the business relationships with Mainland Chinese partners, and how the practice of using ‘guanxi’ and therefore cultural values have changed recently. Some of the sub-themes underpinning the main objectives are summarized as follows:

- What are the elements or building blocks for practicing ‘guanxi’ (e.g. face, favours, trust, respect, etc.)? Are these elements still important today, or have they changed recently?
- Has the practice of ‘guanxi’ (and therefore cultural values) been influenced by economic, demographic or geographic factors in China?
- Are there any perceived differences in the practice of ‘guanxi’ based on the type of industry or size of organizations?

## **Structure and Background: Relevant Literature**

The literature review firstly explored the concept of culture, before focusing specifically upon Chinese cultural and business values, Confucian values, and in

particular ‘guanxi’, face, favour, trust and obligation. Elements such as face, favour and obligations have been identified as important cultural values by various authors including Hofstede (1991) and Tsang (1998). This also included an in-depth analysis of the influence which recent economic and political changes of the business environment in China had on the Chinese cultural values. This thesis has been structured in this way, as it is important for the author to show how the practice of ‘guanxi’ has evolved in the changing context of the Chinese economy.

This study firstly focused on the definitions and implications of national culture, in order to trace back the roots of ‘guanxi’. The view by some of the anthropologists (Geertz, 1993; Kluckhohn, 1951) were considered, as they often engage in a very detailed meaningful description of human lives, by using qualitative research methods. This is in contrast to some of the studies conducted by Hofstede (1980, 1991, 2001), Triandis (1995) and Trompenaars and Hampden-Turner (1993), who mainly focused on dimensions of values and beliefs by using quantitative measures. The view of anthropologists such as Kluckhohn and Strodtbeck (1961), who considered lived experiences as a way of understanding culture by using qualitative methods, is important for this research.

Next, the literature review then looked specifically at the Chinese cultural values and beliefs. In exploring this, the researcher examined Chinese history with its’ past dynasties, the Chinese imperial system as well as the Communist government. Further Chen and Godkin (2001), Lee (1996), Ralston *et al.* (1999) and Selmer (2002) argued that one of the major influences on Chinese culture can be attributed to Confucius. Even in modern day China, according to Wright *et al.* (2000) a typical Chinese workplace is still based on authoritative, paternalistic management style with a strong emphasize on harmony and relationships. It is argued by this author, that the Chinese culture has been partly influenced by the dynasties, political changes, religions and great thinkers and philosophers. Further it is suggested that the Chinese cultural values, especially how to build relationships, still play a role in modern day China and

influence the way business is conducted.

Another interesting debate is the recent economic development in China and its possible implication of cultural values on businesses. Both individuals as well as businesses are facing a rapidly changing economic environment, which has been explored in the latter part of the literature review. In the last two decades, China has made significant economic progress, while opening its' doors to the West, joining the World Trade Organization (WTO) in 2001 as well as attracting a substantial injection from foreign investment (Dunfee and Warren, 2001). This has in part culminated in significant changes in the political, economic and structural environment. These economic changes in China may have affected the way business is conducted. Therefore it is necessary to study the current business experiences, which will assist international companies conducting business in China.

The literature review then proceeded to look at 'guanxi', which is the main focus of this study. Writers such as Chow and Ng (2004), Hwang (1987), Leung and Chan (2003) and Su *et al.* (2007) consider 'guanxi' as a key element in the success of the Chinese economy. Consequently the writer examined the exact definitions and elements of 'guanxi', as well as how they relate and integrate into business activities.

Through exploring the various definitions of 'guanxi' it can be concluded that 'guanxi' is a very complex and much debated concept. For example Yang (1994) defined 'guanxi' as a relationship between two people that can be applied to a husband and a wife, kinship or a friendship. 'Guanxi' has also been defined as personal relationships (Leung and Wong, 2001); personal connections (Fock and Woo, 1998) and personal or social transactions (Yeung and Tung, 1996), where all parties involved must benefit from the transaction and ensure a continued and long-term relationship. In defining 'guanxi' in a business context, Xin and Pearce (1996) indicated that 'guanxi' refers to the interpersonal connection between managers, whilst Redding (2002) argued that it is a network of personally defined reciprocal bonds. All of these definitions share a

common theme; that 'guanxi' refers to longstanding relationships with family, friends or business associates, who benefit from the connections.

Further the literature review considered the different characteristics of 'guanxi'. According to Alston (1989) the practice of 'guanxi' is presented by an unlimited exchange of favours to strengthen bonds between two individuals and / or organizations. The tangible practice may be the exchange of favours; however this exchange may be interdependent upon a lot of other elements. These variables include characteristics such as trust, face, repay and obligation (Buttery and Wong, 1999; Fock and Woo, 1998; Freeman and Lim, 2008; Lee and Anderson, 2007; Leung and Wong, 2001; Tsang, 1998; Yeung and Tung, 1996). For example, trust between individuals is developed over years, and it is a reflection of the depth of credibility between these two parties. The element of trust in a Chinese context is often used as a salient role between executives rather than needing to resort to contractual agreements (Tsang, 1998). To the Chinese the concept of 'face', which represents status, reputation and the public image of a person, is an important element that needs to be developed and maintained. The degree of 'face' is dependent upon an individual's 'guanxi' network. Furthermore the network and relationship is also associated with some kind of mutual obligation and the repayment of favours between business partners (Buttery and Wong, 1999). All of these characteristics have been further explored, because these elements determine how people experience business relationships in China.

Finally this study examined how 'guanxi' has changed recently. Business 'guanxi' may have its own dimension based on the obligations to reciprocate and its usefulness to serve an instrumental purpose (Freeman and Lim, 2008; Yang, 1994). Therefore business 'guanxi' may be able to change and adapt to the environment. Some authors argued that the practice of 'guanxi' will diminish over time (Chow and Ng, 2004; Guthrie, 1998), due to the fast economic changes in China while others argued that 'guanxi' will become more commercialized (Wank, 2002) due to modernization processes in China. However there is limited research available on the changes of

‘guanxi’, especially qualitative research on the most recent practices and possible changes of ‘guanxi’ in China. Therefore one of the major themes of this research has been the current experiences and possible changes of ‘guanxi’.

### **Structure and Background: Methodology**

The methodology section justified the use of a qualitative approach including the semi structured interviews. Further the planning stage, the actual interviews and the analysis of the data were explained. As the topic included the intangible subject of culture, writers such as Bell (2001) advocated that a qualitative approach provides a number of significant advantages. Firstly the early studies of culture by some anthropologists such as Kluckhohn and Strodtbeck (1961) and Geertz (1993) have highlighted that human behaviour and relationships should be explained through lived experiences by using qualitative methods. The decision to adopt a qualitative strategy is even more relevant when considering that the topic of ‘guanxi’ is personal being a sensitive topic; the respondents may be reluctant to fill in a questionnaire (Fields, 2000). Therefore a qualitative research method has been adopted as it is more suitable to explore the experiences and perceptions of people.

Based on the literature review there has been a call for more qualitative research (Quer *et al.*, 2007; Tsui *et al.*, 2007 and White, 2002) for the study of culture, as well as a need for more culture specific, instead of cross-culture comparison research (Dickson *et al.*, 2003; Tsui *et al.*, 2007), which can better capture the dynamic and integrated context within a country. This presented an interesting gap for which this study could contribute.

The vast majority of studies on business culture in China, have been quantitative, such as Fock and Woo’s (1998) study on the implication of ‘guanxi’ or Tsang’s (1998) study, which primarily focused upon the influence of business practices, including the role which ‘guanxi’ plays. Whilst these studies have arguably contributed to the academic

understanding of 'guanxi', the researcher of this paper has identified a number of interesting gaps which exist in academic research as well as the methodologies that have been adopted. In the past two decades China has witnessed arguably the most dramatic changes both culturally, socially as well as commercially (Chow and Ng, 2004), which can be attributed to China being opened to the global markets. However amidst these changes there has been relatively little qualitative research conducted for the study of 'guanxi'. The majority of research examining the cultural dynamics associated with business practices in particular the role of 'guanxi', has been conducted through quantitative methods. For example Buttery and Wong (1999), Chua *et al.* (2009), Davies *et al.* (1995), Fock and Woo (1998), Huang *et al.* (2010), Lee and Ellis (2000), Wong (1998) and Wong and Chan (1999) have all used questionnaires for their quantitative research. Some of the few authors, who used qualitative methods for the study of 'guanxi' included Bassayannis and Cronin (2009), Guthrie (1998) and Yeung and Tung (1996), who suggested that in depth interviews would be more relevant for the sensitive nature of 'guanxi'. The reason for this is that the interviewer can make the respondents more comfortable to reveal sensitive information and penetrate deeper into the subject area. Furthermore whilst acknowledging the importance of previous quantitative studies, there is a need to contribute to the debate surrounding 'guanxi' through undertaking more qualitative studies focusing specifically upon the current practices and experiences used by business executives in Hong Kong conducting business in China. The limited qualitative research available for the study of 'guanxi' represents an interesting gap in research, where this study can contribute.

This study used semi-structured interviews, which enabled the researcher to conduct the interviews in some form of framework, whilst still being flexible to permit the researcher to explore themes or discussions that emerged during the interview. Furthermore the semi-structured interviews are the main source of data in this study, which are based upon the spoken response of each respondent. The interviews were tape recorded and transcribed by following ethical considerations, for example to



safeguard the confidentiality of persons and companies.

It was also necessary to consider the background of Hong Kong, because it has been chosen as the location to conduct this research. Fock and Woo (1998) argued that Hong Kong has been recognized as the gateway to the China market and it has also been the major trading partner for doing business in China (Huang *et al.*, 2010; Wong, 1998). Therefore Hong Kong can be regarded as an important location to research business practices in China. Hong Kong has also the advantage of being more open to research due to the strong rules and systems inherited from the colonial days, whereas in Mainland China the business people are generally resistant to reveal information about their business practices, especially sensitive issues related to 'guanxi' (Lee and Ellis, 2000). Since the change of Hong Kong's sovereignty in 1997, the economic relationship between Hong Kong and Mainland China has even grown and expanded (Shen, 2008). This growth is due to Hong Kong being recognized as having major economic pillars in tourism, finance, logistic and services with the majority of organizations primarily providing service-orientated business to Mainland China. Mirroring these shifts and changes in the Hong Kong business environment, there has been increased interest by researchers to study the impact of culture on business. For example writers such as Fock and Woo (1998), and Lee and Ellis (2000) have explored quantitatively the experience and perception of Hong Kong executives on building relationships in Mainland China. Therefore the experience of Hong Kong executives with their Mainland Chinese business partners can be regarded as an important indicator how to create business relationships and form connections in China. Therefore Hong Kong provides an ideal platform to conduct this study, and the experiences of Hong Kong executives can provide a valuable insight into the business dynamics with Mainland Chinese.

This thesis is divided into six distinct sections; the introductions, literature review (two parts), methodology, findings and analysis and the conclusion and summary chapter. In reviewing the existing literature it was necessary to first trace back the

roots of 'guanxi' and consider the background of culture and Chinese culture. Leading from the literature review this thesis then presented the methodology, which includes the rationale for selecting and using the qualitative research strategy, as well its associated strengths and the ethical considerations for this study. The findings and analysis was then presented before moving to the conclusion and summary.

## **Summary**

The author of this thesis has identified a number of interesting gaps in academic literature and would like to contribute the following concepts.

Firstly, this thesis argues that the traditional practices of 'guanxi' are still important in China; however they take a changing role due to external forces like economic growth and the exposure to international management practices. Therefore Chinese managers may be using a combination of global international practices and traditional cultural values.

Further it is interesting how the elements of 'guanxi' are interlinked and dependent on each other. As the elements of 'guanxi' take an interwoven approach, the cultural values and models are also suggested to take an integrated approach, rather than being on opposite poles as argued by authors such as Hofstede.

Another argument put forward refers to the situation specific and changing nature of 'guanxi'. Therefore Chinese cultural values should be changing and cannot be generalized across China, as they depend on factors such as location, company size and type of generation and industry. Further it is argued that the concept of 'guanxi' and Chinese cultural values have been formed by outside forces, such as political, social and economic background. As these forces are changing, further change of cultural values is expected in future.

Finally this research proves that qualitative research can be an important, interesting and valuable approach to explore cultural values and changes in China. Therefore this study contributes to the existing knowledge of 'guanxi' and Chinese culture, which is mainly based on quantitative methods.

## **Chapter 2**

### **Literature Review Part 1: Culture**

#### **Introduction**

The concept of networking and establishing business relationships with Mainland Chinese executives in today's modern world is a multi-faceted concept. Writers such as Davies *et al.* (1995), Lee and Ellis (2000) and Su *et al.* (2007) have argued that 'guanxi' is a key element to potentially achieve success within China, however the roots of 'guanxi' may be deeply embedded in the Chinese culture. To fully understand the traditional concept of 'guanxi' and its implication to a modern business environment, it is necessary to trace the roots of 'guanxi' by linking it to the study of culture and Chinese culture. Therefore the literature review has been divided into two distinct parts. The first part explored the theme of culture in general by investigating the roots from a national perspective. This included drawing upon relevant literature and authorities in the field of cultural studies. Leading on from this section, the second part and main body of the literature review focused upon the history of China and the influences that have modeled its culture, including the debate surrounding 'guanxi'. In dividing the literature review into these sections the researcher could highlight how the cultural practice of 'guanxi' has evolved in Chinese society. Further the important messages and gaps relevant to this research were examined as follows:

- how the traditional concept of 'guanxi' is related to the cultural studies and its' dimensions, and the need for more emic (culture-specific) research
- that the lived experience, social behaviour and human relationships are important elements of culture, which call for a qualitative research method
- that there are sub-cultural variances within nations and countries
- that culture and the concept of 'guanxi' is changing due to the pressure of globalization

For the study of culture there is often little agreement between academics writers, on the definitions, different dimensions and elements involved, as well as the possible changing nature of culture. According to Hofstede (2001:4) culture is ‘the collective programming of the mind,’ where the values, norms and behaviours of an individual are consistent and do not normally change over time. However the recent fast changing economy and globalization of business and practices may challenge this assumption. Therefore it is important to understand how the traditional concept of ‘guanxi’ works in modern day China, which is the main theme of this research. In the past few decades the business community has witnessed the establishment of a single European market, opening up of the China market, the increase of multinational companies and joint ventures and the growth in the usage of information technology (Zhu and Warner, 2004). In order to adapt to all these rapid changes, people from different countries and cultures are required to follow more international work practices. Therefore some academics (Erez and Gati, 2004; Fischer, 2009; Leung *et al.*, 2005; Smith, 2002; Child and Warner, 2003) argued that culture is not a fixed and stable set of values, but instead can change over time and according to the situation and context. In order to better understand the roots and the changing nature of ‘guanxi’, the next section will explore the background and debates of national culture.

## **Anthropology**

This section defines culture by considering its background and emergence within theoretical debates. The majority of studies that have researched the origins of culture have been mainly anthropology orientated, studying the values and behaviour of people. Some anthropologists including Hills (1977) have focused predominately upon human behaviour by analyzing actions, symbols and beliefs, from which meaning and general conclusions can be drawn. Friedman (1994) broadly categorized the approach of anthropologists into two different categories. According to Friedman (1994), generic culture is specific to all human beings, whilst the second grouping of social behaviour is related to a given population. C. K. Kluckhohn (1951) defined culture as the total way of life of people, which includes thinking, feelings and beliefs

and the assumption that all humans share some biological characteristics. F. R. Kluckhohn with Strodtbeck in 1961 then developed a theory to put the principles into action. Kluckhohn and Strodtbeck (1961) suggested some basic types of problems relating to human relationship, time and the natural environment, which have to be solved by every society. The writers concluded that solutions to these problems, which are different in every society, tend to reflect the values of a society. These early studies by Kluckhohn and Strodtbeck suggested that culture should be studied by qualitative measures, such as interviews. Further the social behaviour, experiences and human relationships relate to the values of a society. This contributes to two important points related to this research. Firstly the origin of cultural studies, prefer to use qualitative methods. Secondly the experiences of people and problems relating to human relationships reflect cultural values of a society.

In a separate debate surrounding the facets of understanding key cultural factors Hall (1976) argued that culture can be divided into dimensions of context, time and space (see Table 1). For example the high context culture contains a lot of ‘unwritten rules’, where people need to read between the lines relying upon non-verbal communication, together with strong and long-term relationships between people. Interestingly the high context culture is strongly related to the Chinese culture and the element of ‘guanxi’, which will be explored in more detail later. In the low context culture, there is less chance for misunderstandings, as people focus more on clear, direct messages and verbal communication. They are also more task and short term oriented. It is interesting that these early studies of culture have identified opposite poles of cultural dimensions, which may not be relevant to Chinese cultural values (to be explored in the next chapter).

In defining culture from an ethnographic perspective, LeVine (1984) has divided culture into several distinct groupings. LeVine’s (1984) research highlighted that culture is a composite of shared and collective orientations. Furthermore culture according to LeVine can also be referred to a seamless web in which the individual’s

norms, values and beliefs are interwoven. Developing onto LeVine's research, writers such as Geertz (1993) argued that culture is often made of multi-layers, which are multiplex in nature and meanings. Another facet of culture is the belief in variations across different populations or groups of people. Various anthropologists including Geertz argued that there will always be some variations. Even if different groups of people live and work together, these variations should not disappear into a global worldwide culture. Geertz (1993) summarized the ethnographic approach by referring to it as a 'thick description'. This 'thick description' according to Geertz relates to the detailed description of people's behaviour within their social life, where meaning is then attached accordingly. From the above definition it is suggested that some anthropologists engage in very detailed meaningful descriptions of human lives that attempts to explain underlying cultures. Furthermore the above authors suggest qualitative research methods, which is contrary to the current trend of cultural studies being predominately quantitative orientated.

The use of a qualitative research method and the belief in the changing nature of culture is particularly relevant to the research objectives of this thesis, which explores the changing nature of 'guanxi' by using a qualitative method. The main point we can learn from the early studies of culture, especially from some anthropologists is that human behaviour should be explained in detail through lived experiences and human relationships, by using qualitative methods, in order to understand the underlying culture. This view is contrary to some authors such as Hofstede (1980), which will be considered next.

## **Definition of Culture and National Culture**

Earlier studies by writers such as Kluckhohn and Strodtbeck (1961) into culture initially focused upon those connections which influences and develops a society. More recent studies in culture however have taken a different focus from a management perspective. These have included Bond (1991), Hofstede (1980, 2001) and Trompenaars and Hampden-Turner (1993, 1997) whose studies have spanned

wide-ranging themes including cultural differences in work and business activities. There are other various cultural studies and measures by House *et al.* (2004), Schwartz (1999), Tinsley (2001) and Triandis (1994). Some of the studies may not be applicable to organizations and management, like the model by Schwartz, as he studied school teachers and students. Overall there is a lack of consensus on the measurements used. Therefore only the most widely used and quoted cultural studies by Hall, Hofstede and Trompenaars and Hampden-Turner will be briefly considered and compared in this chapter (see Table 1).

Hofstede's study was conducted twice around 1968 and around 1972 at a large multinational organization (IBM) in 72 countries and it produced a total of 116 000 questionnaires (Hofstede, 2001). In defining culture, Hofstede's (1980, 2001) research is seen as one of the most comprehensive studies undertaken. As a consequence Hofstede's findings have been extensively debated since its publication with a number of researchers replicating (Bond, 1991) or challenging (Baskerville, 2003; McSweeney, 2002; Smith, 2002) the findings. In defining culture Hofstede (2001) compared the multi-layered nature of culture to an onion, which has several layers of different sized pieces all organized and connected to a core stem of the onion. The inner part of the onion represents the core values of people, which are invisible; the outer layers are namely referred to symbols (words, gestures, pictures, objects), heroes (models) and rituals (social and religious ceremonies), which are the observable and visible elements. Hofstede (2001) also referred to the outer layers as practices, which can be observed by outsiders. (Refer to diagram 1)

Furthermore Hofstede (1980) by analyzing the result of his study suggested four dimensions related to culture. The first dimension of national culture described by Hofstede is individualism versus collectivism, which describes the relationships between individuals and other people around them. The next dimension is power distance, which looks at the qualities of power and wealth within a society. Another dimension is uncertainty avoidance, which looks at the level of threats that people



encounter. Finally the prevailing norms in a society are examined through the masculinity versus femininity index. (Table 1)

During Hofstede's study, whilst identifying the human traits, the study has focused upon Western countries and omitted some values specifically applicable to Asian / Chinese countries. During the 1980's Bond (1991) and the Chinese Cultural Connection Group (1987) in developing upon Hofstede's work have conducted a smaller scale study in Asia. This study identified another dimension, which is mainly applicable to the Chinese, that of Confucian Dynamism. Confucian Dynamism according to Bond (1991) reflects the long-term versus short-term orientation of people, for example shown by hard work and perseverance. Hofstede (1991) included this dimension into his work and identified this as the fifth cultural dimension. Both Hofstede and Bond have suggested that the three dimensions of power distance, individuality/collectivism and masculinity/femininity are common to both Western and Eastern cultures, whereas uncertainty avoidance may be unique to Western cultures, and Confucian Dynamism only relates to Eastern cultures. The values of Confucian Dynamism are related to two opposite poles including factors such as persistence, relationship by status, thrift and sense of shame on the long term pole and factors such as stability, face, tradition, reciprocation of favours and gifts on the short term pole. While the dimension of Confucian Dynamism includes some typical Chinese values (face, respect, status, favours and gifts) relevant for this research, it has also various concerns. Fang (2003) argued that the two ends of the short term and long term orientation poles should not be contrasting but rather interrelated values. For example observing the order of status and protecting and giving face, should definitely be closely related values for Chinese people and not be presented as opposite poles. Further the opposite poles in Hofstede's dimension rather represent a Western way of thinking, that there is always a question of 'either/or'. However the typical Chinese way of thinking is more harmonious and integrated like the concept of Yin and Yang. Therefore it is suggested that traditional values like status and face, presented at opposite poles, can co-exist simultaneously.

While Hofstede's work is seen as a key to understanding culture it is not without its' critics. Baskerville (2003) identified several limitations, including the criticism that it is incorrect to generalize a nation with one single culture, as often a country will be compromised of several regions and ethnic groups within one country. Based upon Baskerville's perspective it could be argued that there is no such culture as 'the Chinese culture', instead it is a composite of its regions like Hong Kong, Taiwan and provinces within the People's Republic of China, who as independent groups will display different values and behaviour. O'Leavy and Levinson (1991) in documenting an 'Encyclopedia of World Culture' found there were 81 cultures in 32 Western European countries, 98 cultures in 48 African countries and North-America alone has 147 cultures. This in itself implies that cultures within countries and nations could be further broken down in order to reflect their sub-cultures. Meyer (2007) argued that there are other dimensions and variations, including industries, time and regions within a country, which could not be captured by Hofstede's study. Further Gerhart (2008) and Fischer (2009) suggested that within country differences are larger than the between country differences. There is also a call by many authors such as Dickson *et al.* (2003), Tsui *et al.* (2007) and White (2002) for more emic (culture and country specific) research, which can better capture the geographic as well as the dynamic and integrated context within a country. Therefore it has been necessary for this research, to give consideration to avoid generalization of Chinese culture, as there may be different sub-cultures and variances of values within China.

Another major criticism of Hofstede's study, made by Baskerville (2003) is about the quantification of culture, as the study is based on a quantitative research methodology, conducted by the usage of questionnaires. Hofstede's study whilst providing an important insight into culture of an international company, the quantitative measure could arguably only look at the behaviour and actions at a very superficial level and could potentially miss out on investigating the deep-rooted core values of people. Despite these concerns, there have been subsequent quantitative studies into culture

including Claes & Ruiz Quintanilla (1998), Hui & Yee (1999) and Jeanquart-Barone & Peluchette (1999). These authors argued that cultural national differences exist and therefore influence for example the job satisfaction of people, HRM practices and career planning behaviour. Whilst acknowledging the relevance and contribution of these studies, there is a need for more qualitative research, which has also been acknowledged by Hofstede (2001). Therefore the need for more qualitative studies and more culture specific research into cultural values can be identified as an interesting gap, where this study can contribute.

Whilst there have been various concerns about the limitations of Hofstede's research, Smith (2002) highlighted one major assumption and possible flaw made by Hofstede. Hofstede has been using the result of national culture for each country since the 1980's, which assumes the stability of nations and culture over time. Firstly countries may merge (e.g. Hong Kong and China, East and West Germany), break up (e.g. Yugoslavia) or shift over time and therefore some changes in behaviour and values of people may occur. Secondly culture may change over time. For example the study of the civilizing process, Elias (1978, 2000) described how the behaviour in terms of manners, etiquette and aggression has drastically changed in the last few hundred years. Therefore the behaviour and actions, which represent the outer layer of culture, may not be stable over time and place. Further Smith (2002) highlighted that different cultures may exist within one country, based on the political system and socio economic development. This poses an important question, as to whether certain parts of culture may change based on the fast changing environment, or a culture may even be shaped by the political system. This is particularly relevant as China is rapidly emerging as one of the key world economies of the 21<sup>st</sup> century. This important question and focal point highlights the changing nature of culture and the influence of external forces relevant for this research.

Trompenaars and Hampden-Turner (1993, 1997:6) have defined culture in a slightly different way than Hofstede, describing culture as 'the way a group of people solves

problems and reconciles dilemmas.’ According to Trompenaars and Hampden-Turner problems which are encountered and solved by people on a more frequent basis, disappear from the conscious mind and become a basic assumption and therefore a core value of people. Whilst comparing the layers of culture also to the concept of an onion (Diagram 2) the above authors have used a slightly different way than Hofstede. According to Trompenaars and Hampden-Turner the outer explicit layer is defined as symbols and observable products of culture, whereas the middle layer refers to norms and values of individual groups. Trompenaars and Hampden-Turner then described the core layer of culture as the assumption about human existence. This refers to the way people act upon nature and strive for survival, which will then become the basic assumption and implicit core value of culture. This definition of the core values of culture may reflect closely the concept by Schein (1996), who defined culture as the deeper level of basic assumptions, which are shared by members of an organization.

Diagram 1: Hofstede’s Cultural Layers (Hofstede, 2001:11)

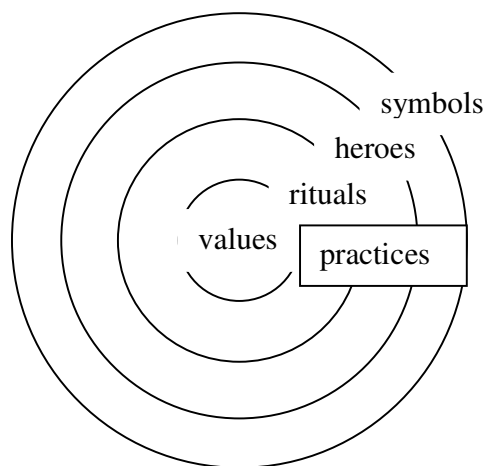
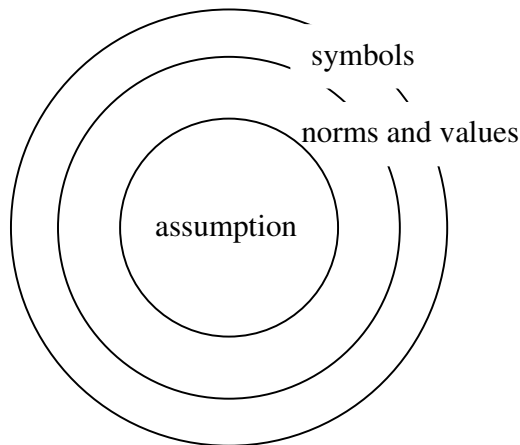


Diagram 2: Trompenaars and Hampden-Turner's Layers of Culture (adopted from Trompenaars and Hampden-Turner, 1997:22)

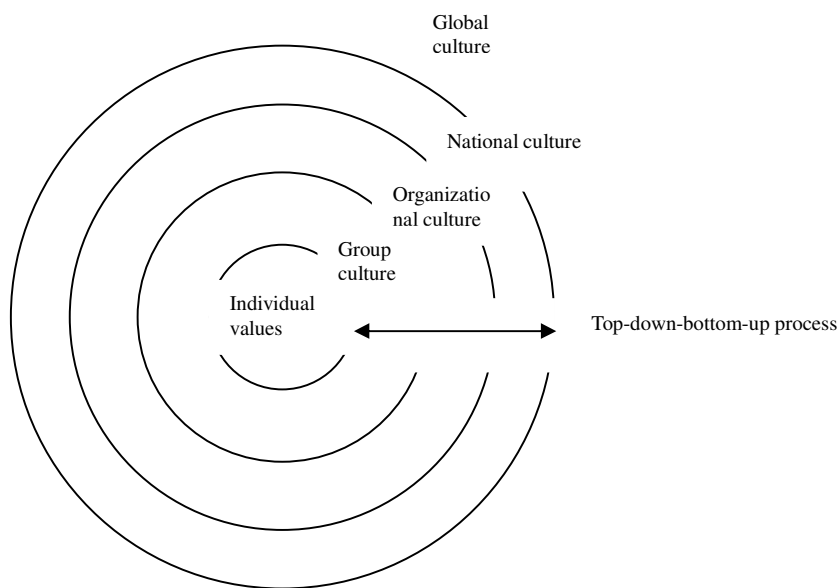


Based on the above diagrams, representing the layers of culture by Hofstede and Trompenaars and Hampden-Turner, they argued that the practices or actions of people form their core values or basic assumptions. The outer levels are the behaviour and practices visible to observers, whereas the inner core level is invisible and attaches meaning to the outer levels. However this author would like to argue that the practices do not necessarily equate values. For example Erez and Gati (2004) and Fischer (2009) suggested that values refer to what should be done, and practices refer to what is actually done. This means that we could have contradicting practices and values, which therefore invalidate the above diagrams of cultural layers by Hofstede and Trompenaars and Hampden-Turner. Therefore this study considered the practices as well as the perceived norms and interpretations of Hong Kong executives while dealing with their Mainland business partners. This study therefore relied not only on observable practices, but also on the perceived norms as well as the interpretations of the researcher.

Further Smith *et al.* (2002) also called for a better understanding how generalized values are linked to specific actions. Therefore this study considered how all the

actions, behaviours and perceptions can be combined and linked to more general values like ‘guanxi’. Additional to the above diagrams, we also need to consider how all the values and practices are linked to the bigger picture of national and global culture. Erez and Gati (2004) suggested a dynamic top-down-bottom-up process across levels of culture (see Diagram 3), where the individual values are affected by national and global culture and vice versa. This means that the economic growth and globalization in China should affect the individual behaviour and values. This model suggests integrated and interrelated changes of cultural levels, which has rarely been addressed by cultural authors such as Hofstede. The changing aspect of culture, especially ‘guanxi’ and Chinese culture will be further addressed in the next chapter.

Diagram 3: The Dynamic Top-down-bottom-up Process across Levels of Culture  
(Erez and Gati, 2004: 588)



The changing aspect of culture has also been considered by Trompenaars and Hampden-Turner, which contradicts Hofstede’s findings. Hofstede considered national culture as ‘extremely stable over time’ (Hofstede, 2001: 34), but he did not entirely rule out any changes, that may come from outside forces. Trompenaars and

Hampden-Turner take a more flexible view by considering culture as shared beliefs that may change, because people realize that certain ways may not work anymore within a changing environment. They argued that culture may ‘dance from one preferred end to the opposite end and back’ (Trompenaars and Hampden-Turner, 1997: 27). This argument about the changing nature of cultural values is also one of the main questions for this research. Finally Trompenaars and Hampden-Turner distinguished culture into seven dimensions categorized under three headings and argued that there are three universal problems, relating to the relationship with human beings, time and nature (Table 1). The problems may be shared by all people across all nations, but their solutions may be different.

Table 1: Dimensions of Culture (Hall, Hofstede and Trompenaars and Hampden-Turner)

<b>Cultural Dimensions</b>		
<b>Hall</b>	<b>Hofstede</b>	<b>Trompenaars and Hampden-Turner</b>
<u>Context:</u> High context – Low Context	Individualism versus Collectivism	Universalism versus Particularism
	Power Distance	Individualism versus Communitarianism
	Uncertainty Avoidance	Neutral versus Emotional
<u>Time:</u>	Masculinity versus Femininity	Specific versus Diffuse
Polychron – Monochron	Long-term versus Short-term	Achievement versus Ascription
<u>Space:</u>	Orientation	Time as Sequence versus Time as Synchronisation
Centre of Power – Centre of Community		Internal versus External Control of Nature

From the comparison of cultural dimensions in Table 1 above, it is noted that some dimensions are similar and comparable, for example universalism versus particularism show strong similarities to the cultural factors of high and low context. However all the dimensions above have opposite poles. This assumption may be a typical Western way of thinking, which refer to the choice of ‘either/or’. However the

Chinese take a more pragmatic and integrated view and may consider both elements, as illustrated by the Yin (female, water, weak, dark, soft, passive) and Yang (male, fire, strong, bright, hard, active) concepts.

Contrary to the above writers, there are also alternative approaches on how to describe culture and society. For example Elias (1978, 1991, 1994) argued that individual persons are always in the centre of society, with which they make up webs of interdependence. For example people are connected to social groups of family, school, industry and state. These chains or networks of individuals depend on each other and change over time. Therefore culture is seen by Elias as a more integrated, changing and evolving model.

As we have highlighted the changing aspect of culture, it is suggested that the various cultural dimensions change due to globalization. For example it is proposed that the dimensions of power distance, individualism versus collectivism and the Confucian Dynamism will be affected by the rapid economic growth in China. It has been recognized by Erez and Gati (2004) that the changing nature of culture has been considered by very few cultural studies. For example Matsumoto and Yoo (2006) suggested while the economy affects culture, it should also be considered how the cultural dimensions are interrelated. Therefore this can be indentified as an interesting gap in the existing literature.

Overall Hofstede's study is a powerful explanation of cultural differences and an approximate indication of complex multicultural variety, which has many merits (Williamson, 2002). However most cultural studies (Table 1) consider cross-cultural and cross-national comparisons, which cannot capture all the country or culture specific variations, as well as the integration and interrelation of its elements. Therefore there is a call for more culture specific research (Dickson *et al.*, 2003; Tsui *et al.*, 2007), which can consider more cultural specific elements and its interrelationship. Further more in-depth cultural analysis is required rather than the



comparative approaches above (Fischer, 2009).

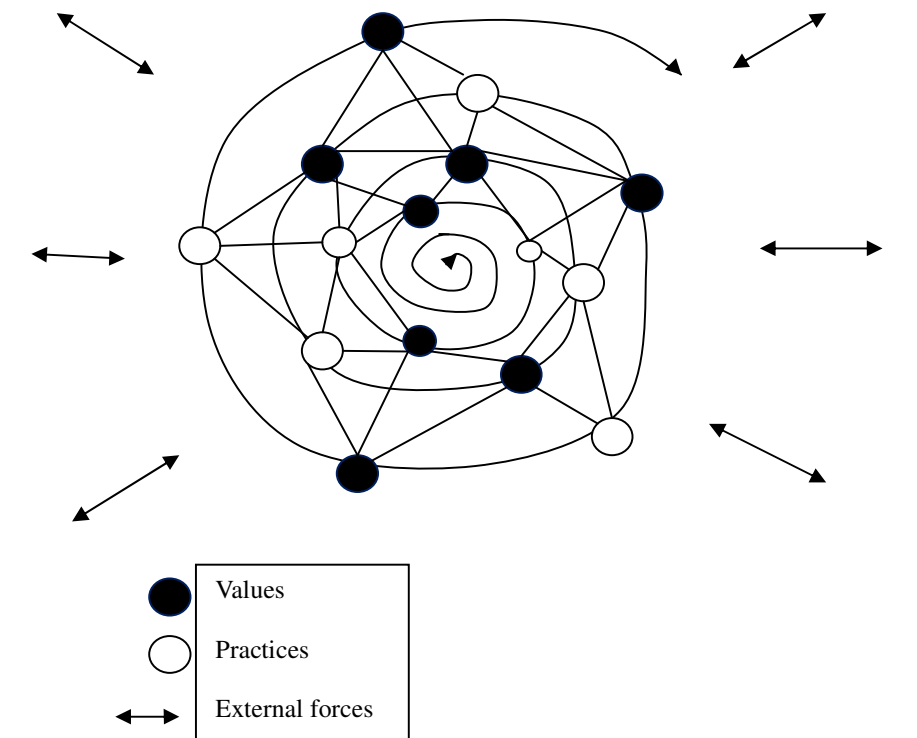
## **Conclusion**

In order to conclude this chapter of the literature review the author would like to propose her own theoretical model and framework of culture and highlight that this model best explains the practice of 'guanxi'.

This writer would like to propose a model of culture located partly within anthropology. It is suggested that culture is related to some of the authors (Kluckhohn, 1951; Kluckhohn and Strodtbeck, 1961; Le Vine, 1984) in anthropology, who described culture as a total way of life and how the human relationships and experiences between people work in society.

It is suggested that individual values and practices are like a web of integrated elements, which can best be explained through the following proposed diagram.

Diagram 4: Spider Web of Interlinked Cultural Values and Practices



The values and practices are located on an outward moving spiral which affects and is influenced at the same time by outside forces. The values (what should be done) and practices (what is actually done) do exist at the same time and next to each other, as people may have perceptions on what they should be doing but actually they do something different in reality. As the spiral is moving some of the values and practices become smaller or less important and some new values and practices may be added continuously. Further the values and practices are affected by outside forces such as historical, social, political, institutional and economic changes. There is a two way process between the values and practices and the external forces which in turn affect each other.

This model is partly related to the onion concept of Hofstede (2001), Trompenaars and Hampden-Turner (1997) and Erez and Gati (2004), however it is much more interlinked and evolving. The cultural elements which are referred to as values and elements are in a fluid and constant moving state. They can also be considered as part of a spider web which is affected by outside forces. Therefore culture is considered to be a changing and evolving web of interrelated elements. This proposed model is contrary to many cultural writes (Hofstede, Hall), who argue that cultural elements are opposite poles of cultural dimensions.

This leads to the next section of the literature review namely Chinese culture and ‘guanxi’. Based on the proposed cultural model, there should be no Chinese culture per se, as culture depends on many factors and changes constantly. Therefore Chinese culture may vary according to different regions, locations, types of industries and companies. Further as ‘guanxi’ is part of Chinese culture it is proposed that the elements of personal relationships (= ‘guanxi’) are also interlinked, depend on each other and are in a changing and evolving state. Therefore the proposed cultural model and theory will reflect and explain the cultural elements of ‘guanxi’.

The next part of the literature review examines the background of Chinese culture in order to explore the historical, social and economic roots of the practices of ‘guanxi’, before considering the definitions, levels and dimensions of ‘guanxi’. This will explain how the concept of ‘guanxi’ has evolved in the changing context of Chinese society.

# **Chapter 3**

## **Literature Review Part 2: Chinese Culture and the concept of ‘Guanxi’**

### **Introduction**

China and its culture still remains a paradox. With their old national and cultural history, which dates back many thousands of years, the Chinese still hold onto their traditional beliefs and values, whilst embracing many of the 21<sup>st</sup> century’s ideals (Boisot and Child, 1996; Chow and Ng, 2004). This paradox has in turn created many challenges, such as intercultural differences, as well as new business opportunities for China, as it emerges to become a major player on the world economic stage. The main aim of this research is to explore how to establish business relationships with Mainland Chinese executives. Therefore the issue of Chinese culture plays an important role, as it influences the way business is conducted in China. China may be adopting many Western modern management practices, while at the same time keeping distinct Chinese core values (Faure and Fang, 2008; Leung *et al.*, 2005; Slough and Miesing, 2003). Therefore it is important to explore how the traditional concept of ‘guanxi’ fits into the modern business world in China.

The first part of this chapter attempted to trace back the roots of traditional Chinese culture, which has been shaped over thousands of years, by reviewing different influences including the old Chinese dynasties as well as Communism. Faced with the 21<sup>st</sup> century and the fast changing global arena the question raised, if and how the traditional Chinese values have survived? In reviewing the literature the researcher explored the background of Chinese culture, in order to better understand the roots of ‘guanxi’. This is important because ‘guanxi’ has often been linked to the cultural forces of Confucianism (Yeung and Tung, 1996).

While exploring the roots of Chinese cultural values, this review also considered the recent changes in China and Hong Kong and its implication for businesses by examining the transition and shift from a command led approach to a market economy in China (Chan and Mok, 2001). This is important because the economic changes may have influenced the business practices as well as the cultural values of people.

It is argued here, that the background of ‘guanxi’ can be linked to two schools of thoughts. One group of authors including Lovett et al. (1999) linked ‘guanxi’ to the cultural background, whereas the other group including Hwang (1987) and Guthrie (1998) linked ‘guanxi’ to the economic changes and structure of society. Further Fan (2002) suggested that different types of ‘guanxi’ could exist simultaneously. For example the family type ‘guanxi’ is linked to Confucianism, whereas the business type ‘guanxi’ is linked to the economic and institutional changes.

The final part of this chapter concentrated on the role of ‘guanxi’ for business. Due to the rapid economic growth in China, there has been growing interest in ‘guanxi’ in recent years, particularly in the field of management and business culture. ‘Guanxi’ has often been defined as one of the key elements in the success of Chinese economies (Chow and Ng, 2004; Hwang, 1987; Leung and Chan, 2003; Vanhonacker, 2004; Yeung and Tung, 1996). Michailova and Worm (2003) argued that the issue of ‘guanxi’ is a very important and all-pervasive matter in Chinese business and social activities. While contracts have become commonplace in modern day China, it is often ‘guanxi’, which is necessary to get things done in a highly political and bureaucratic system (Brody and Luo, 2009; Hutchings and Weir, 2006; Su *et al.*, 2007). There is even a popular saying that “China is a land of ‘guanxi’...Nothing can be done without ‘guanxi’ ” (Tsang, 1998: 67). Despite the large amount of literature and growing interest into the role of ‘guanxi’, there is little consensus and even some confusion about the different concepts of ‘guanxi’. To put ‘guanxi’ into context, this part of the chapter explored and analyzed the complexities surrounding ‘guanxi’ including the benefits, ethical issues, key elements as well as the different levels, bases, types and

dimensions of 'guanxi'. By exploring the key elements of 'guanxi', this assisted in understanding how to use and maintain 'guanxi' in a business context. This is an important key objective of this research, in order to explain cultural values and possible recent changes in China.

The important message and key concepts in this chapter are as follows:

- the historical, social, structural, political and economic background has shaped and influenced the behaviour of people and their cultural values
- due to the rapid economic growth further changes in business practices and cultural values are expected
- the elements of 'guanxi' are important tools to build and maintain 'guanxi', it is suggested that certain elements (trust, gifts, favours, instrumentalism, face) are still relevant in today's business world
- it is necessary to consider the situational and geographic background of 'guanxi'

This author would like to acknowledge that the business practices associated with 'guanxi' may not be culturally specific to China only. The practices also occur in other countries and have been regarded as Western management practices, but in a slightly different form. Firstly Elias (1978) has argued that people make up webs of independence and join social groups. These social groups within families, schools, factories, towns and states are networks which exist in any country or culture. More recently 'guanxi' in a business context has also been linked to Western management literature. For example 'guanxi' has been compared to relationship marketing (Arias, 1998; Lovett et al., 1999), human resources management (Tsang, 1998) and social capital theory (Batjargal and Liu, 2002). However various authors such as Arias (1998), Wang (2005), Wong (1998) and Yau et al. (2000) have examined the differences between Western relationship marketing strategies and the Chinese concept of 'guanxi'. They concluded that there are differences between the Western

and the Chinese way of doing business and applying the concept of networks and relationships. Therefore this study examines the practices of ‘guanxi’ in a Chinese context only.

In understanding the contrasting backgrounds of ‘guanxi’ the next section of the literature review explored firstly the traditional Chinese perspective before analyzing the economic changes and reforms in China.

### **Chinese Values – Based on the Historical and Social Background of China**

In this section relevant literature pertaining to the historical and social background as well as the cultural values and beliefs that have shaped Chinese society have been explored.

Mwaura *et al.* (1998) argued that China has one of the oldest documented national and cultural histories, which dates back many thousands of years. The political entity in China, was probably established during the Han Dynasty (206 BC – AD 220) (Grainger and Chatterjee, 2007). During this period China expanded regionally and established the trade with the West through the Silk Road. Trade continued to flourish throughout the Tang Dynasty (AD 618 – 901) (Chow, 2006). Although many dynasties were overturned eventually, the dynasty system continued and survived many centuries, even surviving foreign invasion, like those of the Mongols during the Yuan Dynasty (AD 1279 – 1368) and the Manchus during the Ch’ing Dynasty (AD 1644 – 1911) (Mwaura *et al.*, 1998). These dynasties with their centralized power of the Emperor have arguably shaped the hierarchical system in China, which is demonstrated by the modern day Chinese characteristic of showing respect to those in authority (Child and Warner, 2003).

The social background of the Chinese and in particular Confucianism has also influenced the traditional cultural values in China. Many authors including Chen and Godkin (2001), Lee (1996), Ralston *et al.* (1999) and Selmer (2002) have all documented various cultural attributes unique to the Chinese, which they suggested have been influenced directly by Confucius. Confucius (Kong Ze 551 – 479 BC) introduced to China a philosophy as a guide for people to live their daily lives. His ideas were based on idealism and humanity (Tang, 1991) and required absolute respect for tradition and hierarchy of relationships (Child and Warner, 2003). Although there are many different interpretations of Confucius' philosophy, the five basic human relations are regarded noteworthy for this thesis. Fan (2000) has linked the five basic relationships to the following principles:

Table 2: Confucius' Five Basic Human Relationships (Fan, 2000:4)

<b>Basic Human Relations</b>	<b>Principles</b>
Sovereign and subject (or master and follower)	Loyalty and duty
Father and son	Love and obedience
Husband and wife	Obligation and submission
Elder and younger brothers	Seniority and modeling subject
Friend and friend	Trust

An important aspect highlighted by the five basic human relationships is the hierarchy of relationships in a society. The concept of hierarchy is reflected in the virtue of propriety and means that people have a moral duty and a social obligation (Wang *et al.*, 1998). This concept has its roots in Imperial China, where the follower or subject needed to be loyal to their master or ruler. It is suggested that this social obligation has now transferred into a business context shown in modern day's Chinese business world where showing great respect for authority is still important.



Confucianism is based upon the social relationships between people through a collectivism philosophy that emphasizes the importance of loyalty, trust, duty and harmony. However, according to Yan and Sorenson (2006), the social relationships apply mainly to the inner circle of people within the same family or the workplace, but not to everybody, especially not to foreigners. It is noted here that the social relationships defined by Confucius relate mainly to family members. The issue of obligation, which is an important element of 'guanxi', is only applicable to the relationships between husband and wife. While Confucianism clearly plays an important part in the foundation of Chinese culture, however it is expected that the concept of 'guanxi' in a business context is not entirely shaped by Confucianism. Further it is suggested that some principles like avoidance of competition cannot be followed anymore in today's modern business world.

While many authors including Chen (2004), Child (1994), Jackson and Bak (1998), Locket (1988), Michailova and Hutchins (2006) and Wong and Slater (2002) emphasize the cultural values related to Confucianism, there may also be other schools of thoughts that shaped the typical Chinese values. Additional to the Confucian philosophy, some religious schools, like Taoism may have contributed to the typical Chinese values and beliefs (Fang, 2003; Faure and Fang, 2008; Pun *et al.*, 2000; Redding, 1990).

Taoism started as a philosophy and was then later adopted as a state religion. The founder of Taoism is believed to be Lao Tze (604 – 531 BC). The religion embodies harmony of opposites and teaches people to live in peace and balance with the universe. ([www.religioustolerance.org/taoism](http://www.religioustolerance.org/taoism)) Taoism also rejects hatred, intolerance and unnecessary quarrelling; therefore it may have contributed to the typical values of the Chinese workforce, who avoid arguments and disagreement. Interestingly Lao Tze was born before Confucius; therefore it could be argued that Taoism may have influenced Confucianism. Further Taoism provided the relationship between yin (feminine, dark, passive force) and yang (masculine, light and active force), which

should always be considered as a whole and complementary to each other. Therefore people are more concerned with finding the way, and a compromise, instead of finding the truth. This may be linked to the concept of 'guanxi', which required the exchange of favours, finding a balance and compromise, but not necessarily the truth.

Whilst Confucianism has arguably influenced the Chinese society over the past 2,500 years, the question remains if and how the philosophy has penetrated into the workplace? Therefore the influence and mindset of 'danwei' and the typical 'iron rice bowl' needs to be investigated.

The origin of 'danwei' was a concept introduced during the Mao era, replacing the traditional term of 'chia', which referred to an extended family unit, including common property (Li and Kleiner, 2001). Before the 1990's the term 'danwei' referred to everything related to a working citizen, and the person in charge of the 'danwei' controlled budgetary and communal facilities. All aspects of a person's life, including family, health, housing and retirement were taken care of by the workplace. As a consequence it was important for the ordinary Chinese individual to maintain a good relationship with the leader in order to secure a better share of the resources and a higher social status and prestige. Therefore people's job and livelihood depended on building and maintaining good relationships. Under the 'danwei' system there was job security for life as well as the encouragement of an iron rice bowl mentality, where the individual was expected to work hard, refuse rewards and be passive in the workplace. The typical rice bowl mindset was prevalent in the State Owned Enterprises during 1950s until the 1980s. During that period individuals were employed and taken care of for life. During the 1980s when the Chinese economy faced problems and many of the State Owned Enterprises closed, became publicly owned or merged with or were acquired by private shareholding companies, the 'danweis' disappeared.

While the typical work unit disappeared, the iron rice bowl mentality still remained a challenge for many companies (Ahlstrom *et al.*, 2005). This was demonstrated

according to Ahlstrom *et al.* by Chinese staff and managers being predominately passive and adverse in taking risks. Mwaura *et al.* (1998) have also identified that the Chinese workers still perceive that personal relationships are more valued than workplace values. Mwaura *et al.* qualified this by stating that people do not like to take risks, accept responsibilities and make decisions, as they fear to make mistakes and lose face. Furthermore they are also unwilling to share individual opinions and information, as knowledge is power and has to be closely guarded. Therefore it is suggested here that the concept of 'guanxi' in a business context may mainly be rooted in the structural setting of the workplace in China.

What is interesting is whether these values will survive the current economic global arena and will these elements continue to influence Chinese businesses in the future? Whilst the concept of 'guanxi' in business may not entirely be rooted in Confucianism it is suggested that it has been subsequently influenced by the historical and political and structural background of the traditional work structure 'danwei'. This means that if certain values and behaviour of people can be influenced by the structural setting of the workplace, the values may also be affected by the economic changes, which will be covered in the next section.

### **Major Economic Changes in China and Hong Kong**

Reflecting the emergence of China as one of the dominant economies of the 21<sup>st</sup> century combined with economic, social and legal reforms, the next section explored how the Chinese cultural beliefs have been impacted by these economic changes. Until recently workplace values have been treated as almost static, with most Chinese values and beliefs having not changed (Ward *et al.*, 2002). This may have been true during thousand years of Chinese Imperial rule until the end of the Closed Door Policies of the Communist party in 1978; however since the Open Door Policy change in economic and social values has begun to happen (Chow, 2006). The major goal of the reform has been to separate the government from business, reduce financial burden of the state and of course to learn from the international arena of economic

development.

One of the implementations during the transition period has been the 1994 Labour Law. This law allowed workers to choose their job, set minimum wage levels and average weekly working hours (Warner, 1995). It also helped to legalize Western style personnel practices, which are common in many foreign owned enterprises and joint ventures. Another major change has been the acceptance into the World Trade Organization (WTO) combined with Beijing holding the 2008 Olympic Games. All of these events according to Ahlstrom *et al.* (2005) have helped to speed up the economic and legal reforms in China. Developing on this, Antkiewicz and Whalley (2005) highlighted the importance of several agreements that have been signed by China. Of predominance have been the Hong Kong and Macau Closer Economic Partnership Agreement (CEPA) in 2003 as well as other Asian trade agreements. All of these agreements have helped to introduce changes in the workplace including increased employee benefits, greater bargaining power as well as increased access to international management practice. These changes in the workplace are important for this research, because they influence and change the business practices in China. As people adopt more international business practices, it is suggested that they consequently change their behaviour and therefore their cultural values and beliefs.

Harvie (1999) argued that one of the major criteria for a transition economy in China has been the change of organizational ownership. There has been an increase in companies merging with foreign firms and foreign owned enterprises have been formed. With these companies there has been the introduction of new organizational structures as well as working practices. This has included Western-based human resource practices as well as promoting individual remuneration based upon their performance rather than length of service. These changes have begun to transform the traditional workplaces, by bringing new and different ideas, values and beliefs, which have been previously absent in China. It is suggested, that China has begun to converge with Western economic and management practices.

In developing this theme of economic change Slough and Miesing (2003) have identified other driving forces for the recent globalization of the Chinese market. Slough and Miesing suggested that there are ten distinct phenomena that enabled or encouraged changes for work place practices. While some factors such as the Free Trade Zones, WTO and the International Cooperative Structures have been important, there are other influences which have been brought about since the Open Door Policy was introduced such as the introduction of ISO standards, Western Business Etiquette, English as the Business Language, Training and Consultancy Organizations. Finally there has been over the past two decades an increase of Chinese nationals as either Chinese students or returning emigrants, who after working in the West have brought back many Western business practices, which has also encouraged change. Additional to the Western business concepts above, Leung *et al.* (2005) suggested that the computer-mediated communication additional to the social, economic and political variables also affected cultural changes. Further Fang *et al.* (2008) argued that globalization, foreign direct investment and the internet exposed the Chinese community to foreign cultures and lifestyles. Therefore globalization has arguably influenced the workplace practices, and in turn also affected or changed the cultural values.

With China's economy undergoing significant transitional changes, the ripples of change have also impacted Hong Kong. Hong Kong has needed to adapt its industrial policies and management strategies while dealing with China, especially the Pearl River Delta (PRD). This has included acting as a gateway for Western companies conducting business on the Chinese mainland. There seems to be an economic convergence between China and Hong Kong through the Closer Economic Partnership Agreement (CEPA) in 2003 (Antkiewicz and Whalley, 2005). Hong Kong has also shifted the labour intensive manufacturing industry to the PRD, therefore becoming a core operation and service oriented state and the PRD became the peripheral operation (Tuan and Ng, 2004). This economic shift, with the critical

turning point occurring during 1987, provided many changes for the Hong Kong businesses.

The major changes in Hong Kong were that the manufacturing industry declined and the service sector increased, which resulted in an outflow of capital and inflow of people (Sung and Wong, 2000). Hong Kong became an intermediary for businesses from the West to enter China. As a result Hong Kong is seen as being a gateway for Western organizations conducting business in China. Fock and Woo (1998) also identified China as the major market for almost every company in Hong Kong. This provided us with the perfect backdrop to conduct the interviews for this research. As ‘guanxi’ literally means to open the gate and connect and establish a relationship, Hong Kong is the gate to China and the business executives are well experienced to act as a link to establish relationships between the West and the East. It is suggested that the economic changes and the rapid globalization have influenced the Chinese cultural values and the business practices in modern day China.

Table 3: Cultural Change in China

Background/ Influence = External Forces	Behaviour and Culture
Historical Background (dynasties)	<div>Behaviour</div> <div>Cultural Values</div>
Social Background (Confucianism, Taoism)	
Institutional/Structural/Political Background (workplace unit)	
Economic Background (economic growth, globalization)	

↔ : formation and change

In order to summarize the above review of historical and social background of Chinese culture, as well as the rapid economic growth in China, the above table provides a clearer picture. It is suggested that the historical, social, structural/political and the economic background has formed the behaviour and practices of people, and therefore their cultural values. This can be linked back to the proposed cultural model (Diagram 4 in Chapter 2). The background and influence of Chinese culture can be regarded as the external forces, which form and change the behaviour and cultural values. The behaviour and cultural values are located next to each other as they may occur simultaneously. Table 3 can also be linked to the bigger picture of culture (Diagram 3 in Chapter 2), where the global culture affects the individual values and vice versa. However it is suggested that the variables are much more complicated and that different backgrounds and external forces need to be considered for the formation of behaviour and cultural values. As in diagram 4 the behaviour and values are integrated and depend on each other. Further they can affect and influence the external forces as well. For example Western educated Chinese managers can affect and change the workplace units in China. Another important point to be considered here again, is that the various backgrounds and influences that affect culture have changed and will change, therefore cultural change is expected. For example, as the economy in China will further grow and more international and global practices invade Chinese businesses, the business practices and cultural values will be affected and change.

The next part explored the formation of ‘guanxi’ in order to show how the traditional concept of ‘guanxi’ fits into the modern business world of today.

### **Background and Formation of ‘Guanxi’**

In order to better understand the practices of ‘guanxi’ it is necessary to further explore the background and formation of ‘guanxi’ and clarify the link between ‘guanxi’ and Confucius and the economic growth. In analyzing the literature there have emerged two schools of thought related to the background of ‘guanxi’. While one group of authors link ‘guanxi’ to the cultural background (Lovett *et al.* (1999), the other group

views 'guanxi' as an institutional result of China's transition to a market based economy (Hwang, 1987).

The first group including Brody and Luo (2009) and Lovett *et al.* (1999) argued that 'guanxi' is deeply rooted in the Chinese culture, especially Confucianism. Yeung and Tung (1996) also argued that the central importance of 'guanxi' lies in Confucianism, whereas Fock and Woo (1998) stated that 'guanxi' is in fact a by-product of the Confucianism's five roles in society. As explained earlier, the five basic human relationships highlight the importance of the hierarchy in a society and may not be linked directly to 'guanxi'. Furthermore the moral duty and social obligation of Confucianism are on a vertical line and always require the younger or lower situated person to show loyalty, obedience and submission to the more senior person. However this is not the case for 'guanxi' in a business context, which rather serves as the mutual obligation and repay of favours by both parties. Buttery and Wong (1999) have also argued that the building blocks of 'guanxi' reflect Confucianism's teaching, related to harmony, hierarchy and moral obligations, and that the economic system has been built around the strengths of the Chinese cultural system. However, this may not be true anymore, as business today is not always conducted morally (Chen and Chen, 2009; Guthrie, 1998; Luo, 2008), and the economic system may not be built around the cultural values, rather the cultural values and beliefs may have changed due to the economic system. Therefore it is suggested that only 'guanxi' based on family relationships may have its origin in Confucianism and 'guanxi' in a business context may have its roots more likely in the structural, political and institutional background.

The second group of authors refers to 'guanxi' as a result of the structural and economic background. For example Lee and Ellis (2000) saw the development of 'guanxi' networks as a response to the bureaucratic system in China, which is quite cumbersome and unpredictable. Guthrie (1998) argued that 'guanxi' is more institutionally related and dependent upon the structure of society, rather than a part of culture. Redding (1993) developing this theme in an earlier study suggested the strong





relationship between 'guanxi' and the political system. The author argued that the political system of Communism may have produced two changes in the social system of the Chinese society. As people were controlled heavily by the state, they may have tried to stay within their familiar private sphere to find comfort and security; secondly people may have tried to search for personal interest, as they could not trust anybody during the Cultural Revolution. Finally as explained earlier, the structural setting of the workplace unit 'danwei' may have contributed to the development of 'guanxi' in a business context.

In order to combine both schools of thoughts, we could consider all the different backgrounds. Arias (1998) argued that 'guanxi' is the result of different factors. Whereas the Chinese culture plays a role, the weakness of the institutional system and the incentive of corruptive behaviour enforced and resulted in 'guanxi'. Further 'guanxi' could be defined and linked to different types and different background. For example Fan (2002), defined different types of 'guanxi', where family based 'guanxi' is rooted in Confucian values and business based 'guanxi' is a product of the current political and socio-economic systems. Therefore Fan (2002) argued that the roots and background of 'guanxi' are linked to the different types of 'guanxi', which do exist simultaneously. Therefore it is proposed that the relationship within the family is one type of 'guanxi' relating to family type businesses, whereas the other type is related to the modern day business practices in China. Similar to Fan's position, Leung and Wong (2001) argued that there are large differences between the traditional Confucian concept and the modern business practice of 'guanxi'. In illustrating Leung and Wong stated that the more traditional Confucian 'guanxi' tended to rely upon moral codes and harmony, whilst the modern business 'guanxi' was more reliant upon strategic tools.

Most authors such as Lovett *et al.* (1999), who only consider the cultural background of 'guanxi', may have problems combining the moral codes of Confucius with the modern practice of 'guanxi'. In attempting to address this gap Man and Cheng (1996)

and later Leung and Wong (2001) have suggested that ‘guanxi’ is situation specific. In illustrating the writers stated that in a family context its members help each other out, whilst in a business setting people will tend to negotiate a deal or gain some form of advantage. Further Leung *et al.* (2005) argued that some traditional values such as harmony can co-exist with more modern values like individual achievement and competition in modern day China. This has been echoed by Faure and Fang (2008), who compare the Chinese values to the concept of Yin and Yang. This means that people can adopt international and global practices, but at the same time keep their local cultural values. Therefore it is suggested that ‘guanxi’ is situation specific and can change or adapt according to outside forces like modern business concepts and globalization.

Table 4: Background of ‘Guanxi’

<b>Background of Guanxi</b>	
Social cultural background (e.g. Confucius)   <b>Family ‘guanxi’</b>	Institutional, structural, political background (e.g. workplace unit), Economic growth   <b>Business ‘guanxi’</b>

By drawing upon these definitions, it is suggested, that the background of ‘guanxi’ is linked to two schools of thoughts (Table 4). The first group defines ‘guanxi’ as family based relationships rooted in Confucianism, whereas the second group argued that ‘guanxi’ is business based with its background rooted in the political, economic and structural systems. Additional to these two groups, some authors argued that both schools of thoughts can exist at the same time. This means that some business practices rely on family relationships with strong moral codes, whereas the modern business relationships rely more on strategic tools. This definition helps us to clarify

the background of ‘guanxi’ by suggesting that family based ‘guanxi’ is rooted in Confucianism, whereas the business based ‘guanxi’ is rooted in the economic and institutional systems.

Table 4 can also be linked back to Table 3 and Diagram 4. Similar like in Table 3, where the background affects the behaviour and cultural values, the business practice of ‘guanxi’ is also affected in the same way. Further as in Diagram 4, where the cultural forces affect the practices and values, therefore they also affect the practice of ‘guanxi’.

This research will concentrate on business based ‘guanxi’, therefore it is expected that the economic development will affect and influence the business practices in China.

The next section will explore the levels, dimensions, tools and strategies, as well as the benefits and risks involved for the practices of ‘guanxi’ in China. The way how ‘guanxi’ is used in a business context is very important, as these practices will assist in interpreting and explaining cultural values and changes.

### **Definitions - Levels, Bases and Types**

It is suggested here, that there are two main schools of ‘guanxi’ relevant to this research. One group of authors (Buttery and Wong, 1999; Yeung and Tung, 1996), have concentrated on the definitions and key elements of ‘guanxi’, including ways how to build and maintain ‘guanxi’. The second group including Davies *et al.* (1995), Lee and Ellis (2000) have highlighted the associated benefits of ‘guanxi’, especially from a business context and the implications for businesses (Fock and Woo, 1998); whereas Chen and Chen (2009), Dunfee and Warren (2001), Leung and Wong (2001) and Luo (2008) have considered the associated risks, problems and ethical issues. This research mainly considered the characteristics of ‘guanxi’, including ways how to build and maintain the business relationships in China.

In defining what 'guanxi' means, it is necessary to trace the roots of the word. The exact meaning of 'guanxi' made up of two Chinese characters relating to 'gate, pass, hurdle' and 'to connect' (Lee and Anderson, 2007; Yeung and Tung, 1996), and is often translated as relationships or connections (Tsang, 1998). Brody and Luo (2009) argued that it is difficult to define or translate 'guanxi' and that there is no English word for it. Through conducting the literature review, there have emerged several different definitions.

Generally 'guanxi' can be defined as personal relationships (Leung and Wong, 2001; Lee and Ellis, 2000), personal connections (Fock and Woo, 1998) and personal or social transactions (Yeung and Tung, 1996), where all parties involved must benefit from the transaction and ensure a continued and long-term relationship. Davies *et al.* (1995) defined 'guanxi' as the continuous relationship with reciprocal obligations for both parties. It is possible from the definitions above to conclude that there is a common thread between the authors, in that they have all highlighted the importance of the personal bonds, which are not necessarily commercial. Interestingly none of the authors have highlighted the possibility that 'guanxi' could be affiliated to a group or organization. In studying the components of 'guanxi' Fock and Woo (1998) highlighted the importance associated with personal loyalty, whilst Davies *et al.*, (1995) noted the importance of exchanging of favours, giving of face and social status to the individual person. On a similar theme Chen and Chen (2009) and Yeung and Tung (1996) labeled 'guanxi' rather as a personal asset, than an organizational asset. This point does pose an interesting question as to whether 'guanxi' is solely personal or can it be incorporated into an organization?

This personal element of 'guanxi' has been challenged by Tsang (1998) who argued that 'guanxi' can also exist at an organizational level, which can also be transferred from individual to individual. Tsang argued that the transfer exists on an individual social basis, where a person can transfer their 'guanxi' to a friend by introducing somebody from their 'guanxi' network. Therefore the social connections between two

parties, who did not know each other has been established through a mutual friend or middle person. This is a popular tactic for doing business in China, especially for foreign companies who need the middleperson or link to establish the initial contact. Secondly Tsang (1998) stated that the transfer can happen on an organizational basis, which is contrary to the majority of current literature (Lee and Anderson, 2007), which discusses 'guanxi' at an individual level only. It is suggested here that all the connections and business transactions are initially built and maintained by the individual person of an organization, which could be lost, if that person leaves the organization.

As mentioned earlier there are different levels of 'guanxi'. There is a consensus amongst the majority of authors that 'guanxi' exists between two individual people, who share a common point of reference. Tsang (1998) identified two types or bases of 'guanxi': the blood base and the social base. The blood base includes any family members, relatives and clan members or groups sharing the same surname, whereas the social base arrives from the social interactions in schools and work places. Similar to Tsang (1998), Yeung and Tung (1996) also defined the group identification of 'guanxi' to two common types; however they called it the ascribed and achieved type. The ascribed type is the same as the blood type, which they divided into two forms. The kinship refers to family and relatives, whereas locality refers to the ancestral village or province. The achieved type refers to the social base, including shared experiences through school, military and work units. While Tsang (1998) and Yeung and Tung (1996) have identified different bases, types and forms of 'guanxi' they actually refer to the same thing, and divide 'guanxi' into two types or bases of group identification. Therefore arguably it is possible to divide 'guanxi' into two groups, based on the persons or groups background, either inherited family ties or achieved social contacts. Chow and Ng (2004) argued that there are differences between the bases of family members and non family members. If favours are given to family members, it is usually seen as a responsibility and there is no obligation to reciprocate, whereas the non family members expect that a debt need to be repaid, which could end

up as a liability. This can be linked back to Table 4, where ascribed or blood type 'guanxi' refers to family 'guanxi' and the achieved or social base refers to business 'guanxi'.

As 'guanxi' is based on different backgrounds with different bases and types, it could have different implications for the businesses conducted in China. It may also affect the changing nature of different types of 'guanxi'. Therefore this research concentrated on the social and achieved type, which is suggested to be the most common type of 'guanxi' related to business.

### **Definitions - Key Elements and Dimensions and Ways to Build and Maintain 'Guanxi'**

So far the literature review has examined the different definitions of 'guanxi'. In order to elaborate more on the concept and deep meaning of 'guanxi', it is now necessary to consider the key elements and dimensions of 'guanxi'. This will assist in understanding the ways how to build and maintain 'guanxi', which is an important aspect of this research.

The definitions of key elements and dimensions vary greatly between different authors. One of the basic key constructs of 'guanxi' has been defined by Buttery and Wong (1999) and Wong and Leung (2001), who argued that there are four elements (Table 5). The authors argued, that 'guanxi' required the Chinese willingness to be flexible and adapt to situations within their network. Furthermore according to the authors there must be some mutual obligations and dependence on each other, which is built through giving favours and trust. While Buttery and Wong (1999) and Wong and Leung (2001) have identified four basic key elements, interestingly the writers did not include the importance of the personal relationship, which is often highlighted by the majority of other authors.

For example, Tsang (1998) has identified five key elements or dimensions of 'guanxi' (Table 5). Tsang (1998) argued that 'ganqing', which is the degree of closeness or affection of a relationship, is very important. People need to spend a lot of time to cultivate the closeness of the relationship. 'Ganqing' could also be positive or negative, which therefore greatly affects the 'guanxi'. To build 'guanxi' it is necessary to exchange gifts or wine and dine with the business partners. The elements of trust and credibility play another important role; they even may sometimes replace the legal contracts among businessmen (Su *et al.*, 2007). The final key element as identified by Tsang is face, which is the individual public image, which also depends on the extent of the network. Face can be a very complex issue for the social relationships in the Chinese society. Hwang (1987), Leung and Chan (2003) have highlighted in detail the importance of face and the implications for Chinese businesses. For instance, face can be given, saved, taken away or lost. Other authors have also highlighted the importance of the personal relationship.

For example Yeung and Tung (1996) have suggested that there are five fundamental dimensions of 'guanxi' (Table 5). The instrumental nature of 'guanxi' can be a means to establish relationships (Yeung and Tung, 1996). According to Yeung and Tung this can be done through the exchange of gifts, entertainment and different kinds of favours and rewards. This broad perspective is in contrast to Buttery and Wong (1999) who considered the practice of 'guanxi' as mainly being based upon favours, whereas Su *et al.* (2007) and Tsang (1998) argued that the practice is predominately done through gifts. It is also important that there should never be a balance of exchanging favours, like in the Western world; instead the favours should always result in an even bigger advantage. This has also been explained by some of the 36 Chinese stratagems, which are translated from an ancient military classic: 'Trade a brick for a piece of jade' (Yeung and Tung, 1996). If there is a balance of favours, the relationship would stop and end, however if favours increase, this ensures continuation of reciprocity and a long term exchange. If two parties continue to exchange favours they develop a mutual

interest, the independence increases and a long-term relationship develops. The last two fundamental dimensions of 'guanxi' as identified by Yeung and Tung (1996), are the personal relationship and trust. The authors stated that the exchange of favours even on a long-term basis, could be easily duplicated by others and the 'guanxi' relationship becomes fragile. Therefore the personal closeness of the relationship based on trust is an essential condition for establishing 'guanxi'. It seems that all the five fundamental dimensions are interlinked with each other. None of the dimensions can be treated independently of the others, and one strategy alone cannot guarantee a successful 'guanxi' relationship. Therefore the dimensions should be viewed as complementary. However Yeung and Tung (1996) also acknowledged some limitations of their definitions, which are based and explained through interviews of Chinese managers conducted mainly in Hong Kong. Their respondents mentioned that the close personal relationship may not be feasible in today's business environment. However interestingly the researchers did not pursue this comment, or link it to the changing economic business environment in China, or even consider the possible fundamental changes in 'guanxi' and its usage. The changing nature of 'guanxi' presents an important gap in the literature, which has been addressed as one of the key objectives in this research.

Additional to the above key constructs and fundamental dimensions of 'guanxi', Fock and Woo (1998) have identified eight characteristics of 'guanxi' (Table 5). Whilst all the characteristics of 'guanxi', as identified by Fock and Woo (1998) are similar to the dimensions identified by Tsang (1998), Yeung and Tung (1996), Fock and Woo however have broken down the instrumentalism of 'guanxi' into different areas, like exchange of favours/ benefits, exchange of information and social activities. Fock and Woo's quantitative study revealed that the respondents agreed that personal relationship is one of the most important characteristics of 'guanxi'. This again confirms the personal nature of 'guanxi' as advocated by writers such as Leung and Wong (2001), Lee and Ellis (2000), Yeung and Tung (1996). What is more interesting



is that Fock and Woo's research revealed an underlying theme relating to the respondents perception of 'guanxi' which was directly influenced by their gender, education level, experience as well as company size. From these findings it is possible to conclude that 'guanxi' may serve different purposes to individuals dependent upon their circumstances or situation. Supporting these findings, writers such as Man and Cheng (1996), Fock and Woo (1998) have argued that 'guanxi' is situation specific. In arguing this many authors including Fock and Woo do not break down the characteristics of 'guanxi' to the demographic background of the respondents, but instead focus upon a more broad area of research. However this omission may not fully explore the multi-facets surrounding 'guanxi' and the role of personal attributes can be of influence. Therefore this research explored if there are any differences of 'guanxi' practices based on geographic and demographic background.

Recently Freeman and Lim (2008) identified the following key dimensions of 'guanxi' (Table 5). Freeman and Lim (2008) argued that trust is positively linked to the quality of relationships and that members of the network depend on each other. Further there is an obligation to return favours in future, which results in a stronger business relationship. It is interesting that Freeman and Lim suggested that the key constructs depend on each other and that the firm size is important. While these suggestions are important for this study, unfortunately the authors propose a conceptual framework only, and no evidence or study is conducted to confirm them. Therefore they present an interesting gap in existing literature, where this study can contribute.

All of the above characteristics present traditional Chinese elements, however due to the fast changing economy and exposure to the Western world, there could be a fusion of Eastern and Western values. Faure and Fang (2008) interestingly argued that the modern approaches today and the traditional Chinese beliefs can coexist in Chinese culture. They compared the Chinese cultural values to the concept of Yin and Yang, where contradictory values supplement each other. For example the group orientation can coexist with modern individualism. However the above authors base their

argument on an analysis of values without evidence. It seems that there has been no recent study related to key dimensions and elements of 'guanxi' and how the traditional Chinese values work in today's modern business world, therefore this study could contribute to this gap in the literature. The different key elements, characteristics and dimensions of 'guanxi', which have been identified, can act as tools and strategies to build and maintain 'guanxi'.

Most of the above authors have argued that in order to build 'guanxi', individuals need to utilize the key elements and dimensions. For example Tsang (1998) argued that exchanging of gifts is one way to initiate and maintain 'guanxi'. Furthermore face has been identified as one of the key elements in the development of 'guanxi', and 'ganqing', the closeness of the personal relationship, should be cultivated in order to strengthen 'guanxi'. Tsang (1998) also identified trust and credibility as important ingredients, however the writer mainly emphasized that 'ganqing', gifts and face are the means to initiate, develop and maintain 'guanxi'.

Similar to Tsang (1998), Yeung and Tung (1996) have argued that there are four strategies to maintain 'guanxi', which are reflected by their five fundamental dimensions. It should be noted that Yeung and Tung are more explicit in describing the differences between facilitating and maintaining 'guanxi', than other authors such as Lee and Ellis (2000) and Tsang (1998). In their study, Yeung and Tung argued that individuals need to initiate the 'guanxi' process by facilitating or 'altercasting' their social network, before they can utilize the strategies. This means that people either need to be linked to a group, either through the family or social network, or they need to rearrange their social network to be included into a group. Yeung and Tung (1996) highlighted, that the mechanism of 'altercasting' in order to establish 'guanxi' is often done through a mutual friend or intermediary. This middleperson or link person is an important part for many foreign businesses when establishing themselves in China. Once the initial contact exists, the four strategies (tendering of favours, nurturing long term mutual benefits, cultivating personal relationships, cultivating trust), as identified

by Yeung and Tung (1996), can be important ways to maintain 'guanxi'. They highlighted that the strategies should be used in an integrated way, and there could even be multiplex relationships to strengthen the 'guanxi' network.

Freeman and Lim (2008) argued that trust, dependency and reciprocity are important key constructs, which are interconnected. It is noted that the dimension reflect exactly the strategies of building and maintaining 'guanxi', however it is not clear if one strategy should be more important than other, or if the strategies should follow a certain sequence. Yeung and Tung (1996) have given equal importance and a complementary and integrated nature to all the strategies. This approach may have ignored the possible changing nature or situation dependent nature of 'guanxi'.

Table 5: Characteristics of ‘Guanxi’ and Tools How to Build and Maintain ‘Guanxi’

<b>Characteristics</b>	<b>Buttery and Wong (1999) Wong and Leung (2001)</b>	<b>Tsang (1998)</b>	<b>Yeung and Tung (1996)</b>	<b>Fock and Woo (1998)</b>	<b>Freeman and Lim (2008)</b>
Adaption	✓				
Dependence	✓				✓
Favour	✓				
Trust	✓	✓	✓	✓	✓
Ganging		✓			
Gifts		✓		✓	
Credibility		✓			
Face		✓		✓	
Instrumentalism			✓		
Personal Relationships			✓	✓	
Reciprocity			✓		✓
Longevity			✓		
Mutual co-operation				✓	
Exchange of information				✓	
Social activities				✓	
Commitment				✓	

The Table 5 above summarized the key elements and dimensions which are important to build and maintain ‘guanxi’. Overall there is no consensus between the authors on how many and which dimensions are important in establishing ‘guanxi’. It is suggested that some of the most cited dimensions such as trust, gifts/favours, reciprocity/instrumentalism and face are important elements of ‘guanxi’, which may still play an important role in today’s business world. However these elements may be changing due to the fast economic growth in China.

In the next section the advantages and benefits as well as the risks and ethical issues of ‘guanxi’ have been explored.

## Benefits and Advantages, Risks and Ethical Issues of ‘Guanxi’

Many authors including Chow and Ng (2004), Hwang, (1987), Leung and Chan (2003), Su *et al.* (2007) and Yeung and Tung (1996) have linked ‘guanxi’ to the key success factors in Chinese businesses. In illustrating this Lee and Ellis (2000) have argued that business cannot be conducted without the facilitating role of ‘guanxi’; and Davies *et al.* (1995:209) in quoting an executive, defined ‘guanxi’ as the lifeblood of the Chinese business community and mentioned that with ‘guanxi’ anything seems possible. As ‘guanxi’ is an important and promising concept for businesses, many potential benefits and advantages have been identified.

Table 6: Benefits of ‘Guanxi’

<b>Benefits</b>		
Davies <i>et al.</i> (1995)	Fock and Woo (1998)	Lee and Ellis (2000)
<u>Source of information:</u> Market trends <b>Government policies</b> <b>Import regulations</b> Business opportunities <u>Source of resources:</u> Import license application Approval of advertisement Approval of applications to provincial/central government <u>Other areas:</u> Build up the company reputation/image Smooth transportation arrangements <b>Smooth collection of payment</b>	<b>Enhance chance of business</b> <b>Gain business</b> Facilitate future transaction Simplify business process Increase sales revenue Secure relationships Increase business introductions Improve negotiation Eliminate the competition	<b>Increase business prospects</b> Increase sales revenue Enhance negotiating <b>Gain business</b> Eliminate competition <b>Facilitate future transaction</b> Source of information Source of resources Build company image Logistic and payment collection

The above authors (Davies *et al.*, 1995; Fock and Woo, 1998; Lee and Ellis, 2000) prepared a list of benefits and asked Hong Kong Chinese executives to rate them based on importance. Lee and Ellis (2000) also included Mainland Chinese executives, but

their findings did not reveal any differences between the two groups.

The respondents by Lee and Ellis (2000) suggested that to increase business prospects, gain new business and facilitate future transaction are the most important benefits of 'guanxi'. Lee and Ellis' findings revealed that less emphasize was placed by both groups on the advantage of facilitating payment collection or the building of corporate image. Here the executives highlighted more the personal benefits and placed less emphasize on the organizational values. Whilst Lee and Ellis (2000) have identified a number of potential benefits, their research did not categorize them or linked them to the different backgrounds or situations of respondents.

Based on the result by Davies *et al.* (1995) the most important benefits were the smooth collection of payment followed by information on import regulations and government policies. This result is contrary to Lee and Ellis (2000), whose respondents rated the smooth collection of payment the lowest of their priorities. Davies *et al.* highlighted some concerns, about the result of their survey, by mentioning that their respondents may have answered the questions with different context in their minds, while some were concerned with marketing, others were related to finance and procurement. This point from Davies *et al.* (1995) is particularly interesting as they have suggested that the benefits depend on the nature of the job of their respondents. This confirms that 'guanxi' depends on the different functions and experiences of executives and may therefore be dependent on different background and situations. This is an interesting point for this research, which has explored any differences of 'guanxi' in the analysis stage, by considering the demographic background.

Fock and Woo (1998) identified that the most important benefits were to enhance chances of success and gain business, whereas the least important benefit was the elimination of the competition. This result is more in agreement with the study by Lee and Ellis (2000), than the survey result by Davies *et al.* (1995). Fock and Woo (1998)

in their study found those more experienced business executives perceived the benefits more positive than the less experienced candidates. They also emphasized the different perceptions of female business executives and the differences according to education level, experience and size of the company. Their findings support the previous argument, that 'guanxi' is specific to the person's background and demographic details. Therefore 'guanxi' plays different roles for different people, and it is not only background and situation specific, but individual specific.

Despite all the benefits, values and power which are associated automatically with 'guanxi', there are also many risks, problems and disadvantages, which have been explored in the next section. The next section is relevant to this research, which asked the respondents if they encounter any problems or risks with the practices of 'guanxi'.

Fock and Woo (1998) and Lee and Ellis (2000) have identified the same disadvantages, which refer to time and resources. They also agreed that 'guanxi' could be expensive, time-consuming and perceived as being corrupt. While corruption is often seen as the response to a weak institutional and legal system (Lee and Ellis, 2000), it poses the greatest risk for Chinese businesses using 'guanxi'.

Writers such as Chen and Chen (2009), Dunfee and Warren (2001), Guthrie (1998) and Luo (2008) strongly highlighted the problems and ethical issues of 'guanxi', and refer to them as potential risky and dangerous practices. Dunfee and Warren (2001) have presented five potentially problematic dimensions of 'guanxi'. Most of these dimensions could according to these writers affect the society as a whole. In presenting their argument Dunfee and Warren stated that 'guanxi' could be problematic if it reduces the societal wealth of an economy, or if it benefits a few people only at the expense of many people. Furthermore the authors stated that 'guanxi' is ethically problematic, if it violates the rules and duties of social norms. For example as bureaucrats could use their official duties for personal benefits or managers of private companies may exchange organizational assets for personal

benefits. Finally according to Dunfee and Warren the last two dimensions refer to the violation of hyper norms, like murder, oppression and tyranny, as well as the corruption of background institutions, like the legal systems and laws. These ethical issues highlight that 'guanxi' can have much wider implications, as it may affect the society, economy and business norms overall. Dunfee and Warren (2001) do not refer to 'guanxi' as a totally negative or unacceptable practice, but instead argue that 'guanxi' should not be accepted uncritically as a Chinese cultural practice, but the ethical concerns need to be considered.

Contrary to the previous authors, Guthrie (1998) takes a much stronger view in concluding that the 'guanxi' practice can become dangerous, unnecessary and even corrupt. In explaining this Guthrie makes a distinction between 'guanxi' and 'guanxi' practice. While 'guanxi' generally refers to social relationships, the writer considered 'guanxi' practice as the use and manipulation of these relationships for specific ends. The 'guanxi' practice has also been labeled as the backdoor practice to take care of procedures in a political or economic situation. As more laws, regulations and legal procedures were implemented in China, Guthrie (1998: 266) strongly argued that the 'guanxi' practice is unnecessary and dangerous and even referred to it as a 'crooked' way of doing business. The reason why Guthrie (1998) has such strong views on the ethical issue of the 'guanxi' practice may lie in the writer's belief that 'guanxi' is declining. China has been changing from a command led to a market led economy, which requires more emphasize on price and quality, instead of relying purely on social relationships. Therefore Guthrie's (1998) argument is built upon the fact that there is also a transition from the corrupt way of 'guanxi' practice to a more general focus on 'guanxi' as a business relationship. Furthermore Guthrie also confirms the changing nature of 'guanxi'. While the practices are changing, Chen and Chen (2009) argued that favour exchanges may still have serious negative implications on non-'guanxi' parties today and Luo (2008) argued that corruption is increasingly surfacing everywhere. Echoing this view, Brody and Luo (2009) suggested that many white collar crimes are still happening today, due to the complex social, legal and



political environment. Their view is still relevant for the findings of this research, however in a changing format.

Overall the definitions confirm a complex and changing nature of 'guanxi'. However there is little consensus of how 'guanxi' changes, as some authors believe in the decreasing role (Guthrie, 1998) and others highlight the increasing role of 'guanxi' (Bian, 1994b; Lovett et al., 1999; Yang, 1994). In addressing this lack of consensus, the next section considered the different views of the changing nature of 'guanxi.' This is an important issue as it forms one of the main objectives of this research.

### **The Changing Nature of 'Guanxi'**

China has become a major player in the world market and there have been drastic changes in the legal, political and economic environment recently (Dunfee and Warren, 2001). These changes have affected not only the business practices, but also the social structure of the Chinese society. While recent studies (Brody and Luo, 2009) suggest that 'guanxi' is still necessary for business activities, it has been argued that 'guanxi' changes due to globalization (Hammond and Glenn, 2004) and Western influences (Lee and Anderson, 2007). For example Chow and Ng (2004) argued that the social networks have declined due to the modernization, industrialization and urbanization. In justifying this Chow and Ng have linked these changes mainly to the close family unit. Chow and Ng's quantitative study revealed that the respondents shared a much closer tie with their close associates than with their family members, which suggests that the bond within the family unit is weakening. This is contrary to the traditional Confucian belief. However Chow and Ng (2004) linked the weakening nature mainly to the family ties, whereas other authors such as Guthrie (1998) have suggested that the entire social relationships and the practice of 'guanxi' are weakening.

In explaining this Guthrie (1998) strongly advocated that the significance of 'guanxi' is in fact declining. Defending this conclusion Guthrie defined 'guanxi' as an

institutionally based system, not a culturally phenomena, arguing that as the institutions have changed, the system of 'guanxi' has changed also. Furthermore Guthrie's distinction between 'guanxi' (= interpersonal relationships) and 'guanxi' practice is important, as he argued that the technique of manipulating the relationships has weakened. For example businesses cannot afford to give special treatment and favour based on relationships as they have to make a profit based on the best price, quality and service. Also the competitive forces of the market and the improving legal and administrative system in China will affect the importance of 'guanxi'. The qualitative study of Guthrie (1998) also revealed, that some managers view 'guanxi' as a universal concept, which is important everywhere in the world, not only in China. Overall Guthrie (1998) advocated that while 'guanxi' is still important the 'guanxi' practice takes a diminishing role in China, due to the economic focus. This is contrary to other authors such as Bian (1994b), Lovett *et al.* (1999) and Yang (1994), who highlighted the increasing role of 'guanxi'.

Both Bian (1994b) and Yang (1994) have argued that the 'guanxi' awareness and 'guanxi' practice have increased drastically during the economic reform and after the Cultural Revolution in order to build a network based society. This is in agreement with Brody and Luo (2009), Lovett *et al.* (1999) and Xin and Pearce (1996), who defined 'guanxi' as necessary to bypass the inefficient communist bureaucracy and substitute the lacking legal systems. Lovett *et al.* (1999) in elaborating have argued that 'guanxi' will increase further and China will rely on a system based on people and relationships rather than on laws and institutions. This view may have ignored the recent drastic changing environment in China. In combining both views as to whether the practices of 'guanxi' will increase or decrease Dunfee and Warren (2001) linked this argument to the background of 'guanxi' and stated, that if 'guanxi' is based on the cultural heritage of Chinese society, it may withstand the economic forces, or even change them in turn. However if 'guanxi' is a response to the institutional and political changes, then it may also change rapidly due to the background. This highlights again the complex nature of 'guanxi', which is based on the background, person, time and

situation. This is important for this study, as business ‘guanxi’ is related to economic and institutional changes; it is also expected to change.

Vanhonacker (2004) has taken a more neutral view and suggested that as the legal system and structures in China are improving, ‘guanxi’ will become less important, however it will always be a necessary ingredient of doing business in China. This is confirmed by Brody and Luo (2009) who suggested that ‘guanxi’ is still necessary in modern day China; as well as Hammond and Glenn (2004) who argued that ‘guanxi’ is still used as a buffer against radical changes of globalization.

While there is no consensus between the above authors, the literature review suggests that the practices of ‘guanxi’ are changing mainly due to the economic growth in China. Further the traditional concept of ‘guanxi’ may change or vary depending on the situation, geography as well as demographic background.

Finally, as globalization and the use of information technology increases the traditional practices of ‘guanxi’ are expected to change further. King *et al.* (2009) suggested that social networks and ‘guanxi’ also take place on the internet through mutual links of websites, whereas Hammond and Glenn (2004) argued that network societies in China will change to become more globalized in future. Therefore ‘guanxi’ is expected to change due to globalization, as well as economic, institutional and political changes.

## **Conclusion**

In order to conclude this chapter, the author would like to propose that the background and external forces affect the practices of ‘guanxi’, and that ‘guanxi’ consists of interlinked elements, which are constantly changing and evolving.

Firstly Chapter 2 highlighted how the external forces influence practices and cultural values. This concept and proposed model (Diagram 4) also reflects the background of Chinese culture and the practices of ‘guanxi’. It is suggested that the historical, political, social and economic processes have formed and influenced Chinese cultural values and the business practice of ‘guanxi’. Especially the institutional changes and the economic growth in China have been a major force in building and changing ‘guanxi’, the way it is used in modern day China today. Therefore ‘guanxi’ is an evolving and constantly changing concept. As the external forces still play an increasing role in China, the culture and the practice of ‘guanxi’ is expected to evolve in response to these forces.

Further it is proposed that the elements of ‘guanxi’ are interlinked and depend on each other. For example elements such as face, trust, favours and socializing should take an integrated approach, depending on each other and constantly changing and evolving. Therefore the concept of ‘guanxi’ should look similar like the proposed cultural model. Further as culture and the concept of ‘guanxi’ are changing, therefore Chinese culture cannot be qualified or generalized, but it depends on many external forces and situational factors.

This presents an interesting gap in literature and an important contribution on how the traditional concept of ‘guanxi’ has evolved and is practiced today.

## **Chapter 4**

### **Methodology**

#### **Introduction**

The study of culture, especially Chinese culture is a very complex area of research, which has received widespread attention over the past few years, including writers such as Child and Warner (2003) and Yan and Sorenson (2006). In order to explore the cultural influence on businesses in China, this study focused on relationship building and networking, called ‘guanxi’ in China, which has a long traditional history. The main aim has been to explore how to establish business relationships with Mainland Chinese executives and how the traditional concept of ‘guanxi’ has evolved in modern day China. The literature review has explored the complex background of ‘guanxi’ by considering firstly the cultural studies by Bond (1991), Geertz (1993), Hofstede (1980), Kluckhohn and Strodtbeck (1961) and Trompenaars and Hampden-Turner (1997). It has been suggested that the qualitative approach by some anthropologists such as Kluckhohn and Strodtbeck (1961) is more relevant for this study, as it can explore the lived experiences and practices much better. Further the above authors have conducted mainly cross-cultural studies; therefore there is a call for more culture specific research.

The literature review has also identified another interesting gap. It was found, that the majority of studies on business culture and ‘guanxi’ in China have been quantitative, including authors such as Chua *et al.* (2009), Fock and Woo (1998), Lee and Ellis (2000), Tsang (1998) and Wong and Chan (1999). While acknowledging the contribution of these studies, it is suggested that there is a need to contribute to the study of ‘guanxi’ with more qualitative research. This is relevant when considering the topic of ‘guanxi’ being a sensitive topic, where the participants may be reluctant to complete questionnaires (Fields, 2000). Further qualitative research can capture the lived experiences and practices and its changing nature much better than quantitative

methods.

The main message in this chapter has been to highlight the gaps within existing literature and justify the use of a qualitative research method, the choice of Hong Kong executives to be interviewed and the choice of semi-structured interviews, as well as the use of a thematic analysis. Firstly the research method has been justified, followed by the practical issues related to the planning stage, the actual interview, as well as the analysis of the findings and ethical considerations.

## **Research Method**

This section explored the advantages of qualitative research for the study of culture, especially the practices of 'guanxi'. Some of the general definitions of qualitative research have been examined first before the practical issues relevant to this research were covered.

Denzier and Lincoln (2003) and Kidd (2002) argued that some of the early qualitative studies were conducted during the 17<sup>th</sup> century, where researchers used ethnography to explore racial and cultural differences of people. Therefore qualitative research is concerned with the words and views of individuals, with whom the researcher usually establishes a closer relationship. Bryman (2001) defined qualitative research as 'seeing through the eyes of people' and looking at meaning and understanding beneath the surface. Further Goodwin and Horowitz (2002) argued that qualitative studies are linked to the rich descriptions of cultural, emotional and social life, whereas Polkinghorne (2005) argued that the main purpose of qualitative research is to describe and clarify the deep meaning of human experiences. Bell (2001) advocated that a qualitative approach provides a number of advantages for intangible subjects like culture. Further Fields (2000) argued that qualitative research methods should be used for sensitive issues and disadvantaged groups.

In summarizing the views of the above authors, it is suggested that a qualitative research method is suitable for the study of culture, because it can explore the meaning of social life and clarify the experience of people further by having a closer relationship with the respondents. The method is particularly suitable to explore the lived experiences and practices of people, which is an important aspect for this research. Further the element of intangibility and sensitivity is relevant for this thesis, which investigated the influence and practice of 'guanxi', which also included the exchange of favours and gifts. The exchange of favours and its possible consequences could be problematic and sensitive for the business executives, who are therefore not willing to share their practices with outsiders. Through conducting a qualitative methodology the researcher will be able to observe the study to ensure that participants do not feel threatened by the research and therefore potentially invalidating the study.

China's rapid economic growth has also led to an increase in Asian business and management research. For example White (2002) while analyzing 840 articles relating to Asian management in 30 journals over the period 1980 – 2000, argued that the studies primarily used quantitative data to test their hypotheses resulting in a dominance of positivist approaches. Further Quer *et al.* (2007) reviewed 180 empirical papers on management in China from 2000 – 2005. They revealed that 82.2 % of the papers analyzed, have used quantitative measures. This predominant reliance on quantitative measures is also reflected in the review of 93 cross-cultural studies from 1996 – 2005 by Tsui *et al.* (2007). The above review of existing papers clearly indicates a gap in the methodology used for cultural studies, especially in Asia. Therefore there is a need to supplement the existing papers with more qualitative research methods. Additionally there is also a call for more country specific research, as the cross-national and cross-cultural research often lacks the country or cultural specific element, which cannot be compared across nations.

An alternative approach to this qualitative research method would be to use

triangulation. Koeber (2002) and Erzberger and Prein (1997) argued that triangulation could make qualitative research more valid and enhance social findings by testing the qualitative method additionally with a quantitative method. However there are also several pitfalls as highlighted by Kpinak (1999). For example it is difficult to combine numerical and linguistic data and ensure the consistency between data, as well as handle the large volume of data. The author of this study opted mainly for the qualitative research as it is more suitable to explore the lived experiences as well as the changing and sensitive nature of 'guanxi'. Further as the majority of research on 'guanxi' is based on quantitative research, this qualitative research could contribute and supplement existing research.

The next section considered the methodologies used for the existing studies of 'guanxi' by firstly exploring the quantitative studies and then the qualitative studies. The particular focus has been to explore the response rate of existing studies, as well as the use of interviews for this study. These issues have further assisted in justifying the choice of a qualitative research method.

There has been increased interest in the study of 'guanxi' and it has become a very popular research topic (Fan, 2002; Lee and Ellis, 2000; Leung and Chan, 2003). However the majority of authors used quantitative research methods (Buttery and Wong, 1999; Chow and Ng, 2004; Chua *et al.*, 2009; Davies *et al.*, 1995; Fock and Woo, 1998; Huang *et al.*, 2010; Lee and Ellis, 2000; Leung and Wong, 2001; Wong and Chan, 1999) and there has been limited research conducted through qualitative methods (Bassayannis and Cronin, 2009; Guthrie, 1998, Han and Altman, 2009). This is surprising as the advantages of using a qualitative approach for intangible subjects, which obviously include culture and 'guanxi', have been highlighted by many writers such as Bell (2001) and Saunders *et al.* (1997).

The most common quantitative method for researching the benefits and implications of 'guanxi' were questionnaires, which were sent to Chinese business executives or



management students. For example Davies *et al.* (1995), Fock and Woo (1998) and Lee and Ellis (2000) whilst conducting research have all used questionnaires in Hong Kong. However their methodology may have been hindered by a comparatively low response rate in the quantitative survey. Davies *et al.* (1995) received a 15 %, Fock and Woo (1998) a 13 % and Lee and Ellis (2000) a 16 % response rate. They considered the low response rate as satisfactory, and justified it with the survey adverse climate in Hong Kong, where business people have to work long hours, under high pressure and generally are reluctant to complete surveys and questionnaires. Buttery and Wong (1999), Wong (1998) and Wong and Chan (1999) also conducted quantitative research by using questionnaires for business executives attending training courses at the Vocational Training Council in Hong Kong. Interestingly all of the above research was based on exactly the same survey with a response rate of 27 %. Another survey also conducted in Hong Kong in 1999 by Leung and Wong (2001) received a response rate of 23 %. Although seen as being slightly below the median of response rates, a similar justification was given by Leung and Wong (2001) that Hong Kong executives are too busy and do not receive any commercial value by completing a survey, was given by the above authors. Further Huang *et al.* (2010) received a 14.77 % response rate during their quantitative research in China. Chow and Ng (2004) also conducted quantitative research through questionnaires in Hong Kong, however did not mention the response rate. All of the above authors did not further justify their choice for a quantitative research method for the study of 'guanxi'. This may reflect a tradition of quantitative research, without justifying the methodology. It is clear that a low response rate is indicative for quantitative research methods, especially in Hong Kong.

It is suggested to explore the practices of 'guanxi' by using a qualitative approach, which is different to the majority of studies. Kriz *et al.* (2002) also advocated that qualitative research in Asia seems to achieve a much higher return or response rate. For example Guthrie (1998) received a 90% co-operation rate with the participants in his qualitative study of 'guanxi', whereas Han and Altman (2009) received a 70% and 100% response rate for subordinates and supervisors respectively. Therefore a

qualitative research method has been used for this study of 'guanxi', which is conducted in Hong Kong. Existing quantitative studies show a fairly low response rate; therefore it has been useful to try something different in the form of qualitative research to cover a wider audience through a higher response rate.

It has been illustrated above, that the majority of research on 'guanxi' has been quantitative based, and there is limited qualitative research available. Therefore this study provided an alternative methodology and contribution to the majority of existing studies, which are quantitative based. Further the limited qualitative research for the practices of 'guanxi' presented an interesting gap in the literature, where this research could contribute.

There are a few writers who used qualitative methods for the study of 'guanxi' including Bassayannis and Cronin (2009), Guthrie (1998), Han and Altman (2009) and Yeung and Tung (1996). Yeung and Tung (1996) conducted semi-structured interviews with heads of China operations of 19 companies mainly located in Hong Kong, with all their respondents referred by friends and relatives. Yeung and Tung (1996) argued that given the sensitive nature of 'guanxi', it is more relevant to conduct interviews through referrals, because it is easier to solicit information if the interviewer is known to the respondents. Guthrie's (1998) study included 155 interviews with General Managers of international organizations in Shanghai. He also suggested that in depth interviews are more relevant for the study of 'guanxi', due to the sensitive issue and negative connotations associated with it. Bassanyannis and Cronin (2009) conducted three case studies in China and Hong Kong, however their topic of supply management practices and 'guanxi' for product development is less relevant for this thesis. This also applies to the topic of supervisor and subordinate 'guanxi' by Han and Altman (2009), who used open ended questionnaires in China. This study supported the method by Guthrie and used interviews because they assisted in revealing information which is sensitive in nature. Further it was possible to explore the lived experiences of people, as well as the deep meaning and the reasons behind

the practices of ‘guanxi’.

In the next section, the writer considered the practical issues of the qualitative study, by elaborating on the planning stage, the actual interview and the analysis of the data. Finally the ethical consideration for all the stages of the thesis has been explored.

### **Planning Stage**

Throughout the planning stage of this qualitative research several issues have been addressed. Firstly the reason for choosing Hong Kong as the location to conduct the interviews, as well as the reason for choosing Hong Kong executives has been justified. Then the background and profile of candidates and their organizations and the access to them have been highlighted. Finally it was necessary to plan and justify the type of interview and questions used.

The focus of this research has been to explore how to establish business relationships with Mainland Chinese executives. There were several reasons why Hong Kong has been chosen for this research. Writers such as Fock and Woo (1998) identified that in Hong Kong, China influences almost every business to some extent, illustrated by the fact that Hong Kong managers often act as intermediaries to negotiate business deals between the West and East. Therefore it has been suggested to interview Hong Kong managers because they have experience in doing business in different regions and cities in China. Further as they are the link between Western and Chinese companies, they are well versed with establishing and maintaining the business relationships. For example Redding (1990) highlighted that Hong Kong being a relatively small society in which relationships are important it provides an ideal location for the study of ‘guanxi’.

Hong Kong has shifted the labour intensive manufacturing industry to China; its economy has changed to become mainly a service provider for China (Tuan and Ng, 2004). This resulted for Hong Kong to become the business door to China. Even today Hong Kong has been recognized as an important location for 'guanxi' research, as Hong Kong is the largest foreign investor in China (Huang *et al.*, 2010). As most companies conduct business in China and often act as the link to other companies, this indicates that Hong Kong is an ideal place, where a large number of companies and a large variety of different organizations are situated in one location. Further, as all companies are located in Hong Kong, and the managers come from a similar cultural background, this provided a platform to conduct the interview with the least variables. However at the same time it was possible to cover different areas in China, as the companies in Hong Kong are the main service providers for different cities in China. Hong Kong seemed to be ideally located to gain access to different companies dealing with China. The majority of quantitative research (Buttery and Wong, 1999; Chow and Ng, 2004; Davies *et al.*, 1995; Fock and Woo, 1998; Leung and Wong, 2001; Wong, 1998; Wong and Chan, 1999) has been conducted in Hong Kong. As qualitative research on 'guanxi' is limited, there is a need to supplement the existing knowledge about 'guanxi' with more qualitative research. The majority of the above authors gathered their data from Hong Kong Chinese executives or management students, who had experience with business practices in China. Therefore it was possible for this research to compare or link part of its findings to the above studies.

There has been limited qualitative research conducted in China, including Guthrie (1998) who conducted his qualitative research on 'guanxi' in Shanghai. The reason for the limited research may be due to the practical difficulties of conducting interviews in China, as well as the sensitivity of the subject. For example Lee and Ellis (2000) have argued that the Mainland Chinese business people are generally resistant to reveal information about their business practices, especially private and sensitive issues connected to 'guanxi'. Further Hong Kong has the advantage of being more open due to the strong rules, systems and laws inherited from the colonial days. Most of the

above authors (Chow and Ng, 2004; Davies *et al.*, 1995; Leung and Wong, 2001; Yeung and Tung, 1996; Wong and Chan, 1999) did not justify why they have chosen Hong Kong instead of China for their research. However Fock and Woo (1998) argued that as China is such a large country with a vast market of different businesses, a comprehensive study would not be possible.

Some critics like Kriz and Fang (2000), argued that many researchers chose Hong Kong as an easy target and a substitute for Mainland China. However based on the above justification Hong Kong can be regarded as an important location and gate to China and the Hong Kong business executives are often the middleperson to establish business connections in China. As the main objective of this research was to explore how to establish relationships with Mainland business partners, Hong Kong was the ideal location and Hong Kong executives were the ideal target persons to be interviewed. It would obviously not have made sense to ask Mainland Chinese directly how to establish relationships with them. Therefore it was necessary to ask somebody who had actually experienced this situation and could talk about their lived experience, practices as well as their perceptions of the networking process.

Now the reason for choosing Hong Kong executives is further explained. Erez and Gati (2004) and Fischer (2009) argued that the cultural values (what should be done) and the practices (what is actually done) do not always match. For example some Mainland Chinese executives are officially not engaged in gift giving activities, which could potentially lead to bribery; however the practices during the interviews revealed that some executives ask or accept indirect gifts, like services or information. As 'guanxi' and its' related elements are a sensitive topic, the Mainland Chinese executives may rather reveal values instead of practices. Therefore Hong Kong executives can be regarded as outsiders and insiders to the business activities in China and can therefore reveal the actual practices as well as the perceived norms and interpretations of their Mainland Chinese counterparts. This study did combine the advantages of Hong Kong executives by considering their actual practices in China, as

well as their perceived norms and interpretations of their business partners.

The next part of the planning stage involved considering the accessibility to the participants and the selection criteria, and in particular their background. As elaborated above Hong Kong business executives are usually too busy and reluctant to participate in quantitative surveys (Leung and Wong, 2001), therefore they may also decline the participation in qualitative research. Therefore it was important to gain access to the right candidates for this research. Fields (2000) argued that the access to candidates is greatly assisted by the quality of the networking approach, especially for sensitive research topics. Lee and Ellis (2000) also argued that the ‘guanxi’ ties of the author assisted not only in gaining access to candidates but also resulted in greater confidence in the true value of the findings. Echoing the above authors view, Kriz *et al.* (2002) also suggested using the social network to gain access to candidates in Asia. This has been highlighted by one of their case studies conducted in China, where ‘guanxi’ has been identified as the tool to get access to respondents and in order to obtain credible data. The authors even labeled ‘guanxi’ as the prerequisite for success of qualitative research in China. The researchers above encouraged and recognized the subjectivity of their qualitative study, instead of trying to eliminate it. Further Quer *et al.* (2007) while reviewing 180 empirical papers and studies on China business from 2000 – 2005, highlighted the difficulty to obtain data in China due to the restrictions imposed by the authorities for foreign researchers. Therefore some recent research in China by Brouthers *et al.* (2005), Ellis (2005), Lee and Anderson (2007), Murray *et al.* (2005), Wang *et al.* (2005) and Yiu *et al.* (2005) have considered local intermediaries or contacts within China (= ‘guanxi’) to obtain data. Therefore the relationships with business executives, whilst being the focus of this study, became also an important part of the methodological approach, because the respondents felt more comfortable to reveal business information to somebody they personally knew.

While the writer of this thesis has chosen social networks as the method to gain access to respondents, she also considered to select respondents from different backgrounds, genders and age groups. This methodological decision was based upon the literature review, which revealed that some differences of 'guanxi' may be related to demographic variables, such as gender and age (Chow and Ng, 2004). By using the relationship and connections to interview candidates, this resulted in a 100% response rate, and it also assisted in achieving greater confidence in the true value of findings.

The first list of possible candidates was compiled by using multiple points of access. For example the following contacts have been included:

- friends, husband of friend, parents of children's classmates
- previous colleagues
- classmates of study programmes
- business executives known through work
- landlord
- people known through hobbies, clubs and associations
- relatives of friends and colleagues (= snowball method)

By compiling the list of possible respondents, the snowball method was also considered, in order to broaden the sampling method and the choice and background of respondents. Polkinghorne (2005) suggested that the snowball method is a good strategy to increase the pool of possible respondents. The snowball method is a network based sampling method, which is often used for multiple chain referrals, sensitive issues (Biernacki and Waldorf, 1981) and limited sample frames (Snijders, 1992). Further it has been argued by Kuper *et al.* (2008) to use multiple sampling methods for qualitative research, in order to broaden the understanding of the study. This research used the method of maximum variation sampling and two respondents were selected through the snowball method. The snowball method used was a one wave snowball, including relatives of friends and colleagues only, in order to control

the quality and accessibility of respondents. Therefore no chain referrals were considered. The choice of various sampling methods and access points resulted in a wider range of backgrounds and experiences of respondents. The snowball approach also enabled this research to identify potential participants that could assist and enrich the study from different backgrounds, which may have been unavailable to the researcher.

After the list of possible candidates have been compiled, the final candidates were then selected based on their backgrounds, in order to achieve a cross-sectional audience. For example the candidates were screened according to the gender, company size and the background, industry and sector of the company, in order to include a diverse background of candidates. This selection criterion of maximum variation sampling enabled the researcher to include 10 males and 7 females, different company sizes and different industry background of participants. Further this strategy was used according to the aim of this study to look at the practices of 'guanxi' in general, instead of concentrating on one specific industry.

The profile of the candidates is shown below in table 7. Throughout the analysis of findings the names of candidates have been changed, in order not to reveal their identity. It is noted that all the respondents were between 36 – 55 years old and there were 10 males and 7 females. The company size was distributed between small, medium, large and some very large companies and companies were selected from different industries, representing banking, insurance, hospitality/tourism, retail, and manufacturing sectors. The respondents were well known to the researcher and they mainly worked in Executive and Management positions, and all spoke good English. Therefore it was not necessary to involve a translation of the questions.



Table 7: Background of Respondents

<b>Gender</b>	<b>male</b>	<b>female</b>	<b>Total</b>
	<b>10</b>	<b>7</b>	<b>17</b>

<b>Staffing</b>	<b>1-9 micro</b>	<b>10-49 small</b>	<b>50-249 med.</b>	<b>250-499 large</b>	<b>500-999</b>	<b>1,000-4,999</b>	<b>Over 5,000</b>	<b>Total</b>
	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>1</b>	<b>17</b>

<b>Sector</b>	<b>Service - Banking</b>	<b>Service - Hospitality Tourism</b>	<b>Service - Retail</b>	<b>Service - Insurance</b>	<b>Manufacturing</b>	<b>Total</b>
	<b>3</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>5</b>	<b>17</b>

A total of 17 respondents were interviewed, with each interview lasting for around one hour. All the interviews were tape recorded and then transcribed, which resulted in over 68,000 words (150 typed pages, which equaled 300 handwritten pages) of detailed answers and comments.

Based on the cross sectional pool of respondents which were gathered, it was easier to justify the possible dilemmas of qualitative research, which has been covered in the next section.

One dilemma of qualitative research would be the generalization of the findings. Kriz *et al.* (2002) suggested that the generalizability of their research in Asia was increased by maximizing their network coverage. Contrary to the above author, Mitchell (1983) suggested that the findings of qualitative research should be generalized to the quality of theory rather than to a population. This research has used the selection criteria of maximum variation sampling by including different people from different industries, instead of the homogeneous sampling method (= one particular group), which did maximize any possible generalization of the results.

Bryman (2001) argued that there are mainly three criteria for assessing the quality of any social research, which are replication, reliability and validity; however these terms are usually associated with quantitative research. Some authors (Goodwin and Horowitz, 2002) argued that it is a basic rule for any quantitative and qualitative research to ensure reliability and validity, while others (Marshall, 1995) stated that qualitative research is a more subjective rich study with personal relevance. While the above authors take a more extreme view, it is necessary here to consider the basic concepts of reliability and validity for choosing the respondents, in order to make the study trustworthy. Bryman (2001) has defined reliability as the measurement being consistent and stable and that the study can be repeated whilst achieving the same results. In order to improve the reliability of this research, different access points to select candidates were used, with a pilot study conducted and all interviews tape recorded. While it is impossible to repeat or replicate this study and achieve exactly the same outcome, the author has followed certain steps above in order to collect meaningful data. Further Polkinghorne (2005: 141) argued that the validity and trustworthiness of qualitative research could be improved by selecting 'viable sources that can promote a deepening of the understanding' of the subject. By choosing multiple points of access for example through work, study, family, friends and a possible snowballing method, the reliability could be improved.

The next step in the planning stage was to consider the type of interviews and questions to be asked. The author of this study has chosen face-to-face semi-structured interviews based on the advantages of this type of interview and the relevance of the topic. As 'guanxi' is a sensitive topic, a one to one interview type was suggested, because participants may not feel comfortable in a group to reveal their private and secret matters of their business relationships (Bryman, 2001). For example Bryman (2001) indicated that in a group situation, the participant tend to react in a more negative or defensive manner, while dealing with sensitive or private issues. As this study is focused upon the practice of 'guanxi', the participant may feel, that they could

lose face, which is an important consideration for Chinese (Hwang, 1987). Also being business executives their views and practices could potentially place them in an awkward position if openly admitting to something that may not necessarily be common practice. Polkinghorne (2005) suggested that most qualitative studies use semi-structured interviews. This type of interview is also suitable to discuss sensitive issues and talk about lived experiences, as it encourages a two-way communication. Further in-depth interviews could be too intrusive to discuss sensitive issues and may raise important ethical considerations, whereas the structured and standardized interviews are too specific (Bryman, 2001) and do not allow for a conversation or further questions to be raised if issues are unclear. Another advantage of semi-structured interviews is that not only the answers are provided, but it can clarify the deep meaning of human lived experiences, which is important for the 'soft' subjects of culture (Polkinghorne, 2005). Marshall (1995) advocated that soft subjects like culture should be researched through more soft approaches and subjective methods. Based on the above advantages face-to-face semi-structured interviews were used for this study.

All of the interviews were conducted in English. The premise of this decision was based upon the fact that English is seen as the international language of business which all participants are fluent in. In addition whilst the researcher, being a native German speaker who has a fundamental understanding of Chinese, English is considered more suitable as it ensured that both researcher and participant understand the questions and answers correctly. Further by using a common language, this avoided the dilemmas associated with the translation in qualitative research (Temple and Young, 2004).

Further by choosing English as the common interview language, it was necessary for the respondents to explain some Chinese terms further and therefore shed light on some interesting terms. For example the term 'hoi gwai' (= sea turtles) is a common known term in Cantonese, however by conducting the interview in English, it was necessary to explain and elaborate on the term, as the experiences associated with it.

Therefore the English language added extra information and value to the interview.

Additional to the language, there was also some consideration to be taken regarding the nationality of the researcher. As the researcher is a German national, she could be regarded as a foreigner to China and its culture. However Meyer (2007) highlighted, that many European and North American scholars undertake research on China, it is their personal freedom and interest, which needs to sustain their persistence over many years. Further White (2002) argued that it is difficult to decide who is an Asian or local researcher, as many Chinese researchers may be born or educated in other countries. Also it is often more important that researchers have a deep understanding of the local culture by spending a substantial amount of time there (Tsui *et al.*, 2007). Therefore this researcher argued that it is an advantage for her to conduct research on Chinese culture, as she can be considered as an outsider, being a German national, and at the same time an insider, working in Hong Kong for 20 years. While having 20 years of local work experience with Chinese executives, the researcher is well versed with the local culture and has also immersed with Chinese traditions through her local marriage. However at the same time she can still identify the cultural differences from a broader perspective. Therefore the insider and outsider perspective can be highlighted and considered as a major advantage for this research.

Furthermore conducting the interview face to face permitted the researcher to explore whether more in-depth probing was applicable. The semi-structured interviews also enabled the researcher to conduct the interview in some form of framework, whilst still being flexible to explore themes or discussions that emerged during the interview. Frey and Oishi's (1995) argued that semi-structured interviews will enable the researcher to clarify themes or points that may arise during the interview and follow up with more questions immediately.

Therefore an interview guide was prepared, which is explored next. The aim for the interview guide (Appendix 1) was to develop some standard topics and questions for

the interview, which have been identified through the literature review and then used follow up questions to allow deeper penetration into the subject. Throughout the literature review two major themes of interest emerged. The first theme related to the question how to establish business relationships with Mainland Chinese; secondly the recent changes surrounding the topic of 'guanxi' have been researched. The main theme also addressed the question how the traditional concept of 'guanxi' works in the modern business world of China today. The interview guide consists of a series of broad questions related to the central theme of and objective to this research. These included questions related to how the respondents initiate, build and maintain their business relationships in China. In addition the way how the practice of 'guanxi' has changed recently was explored. In order to assist the interviewer to penetrate deeper into the subject some topics of follow up questions were included into the interview guide. For example the areas of trust, face and respect were highlighted.

Once the planning stage was concluded, it was possible to move to the actual interview, which also includes the pilot test and an introductory note or statement, which has been covered in the next section.

## **Conducting the Interviews**

Before the actual interviews were conducted it was necessary to prepare an introduction for the respondents, conduct a pilot test and consider some practical tips and issues for the interviews. This ensured that the interviews ran smoothly, without interruption and unnecessary explanations or changes. Glaser (1978) argued that the researcher should establish some rapport with the interviewee first. This can be done by introducing the rationale of the study to the respondents first. This introductory note or statement can either be spoken by the interviewer or given in a written note or letter. Bryman (2001) also proposed some issues that should be included in the introduction, like the rationale of the research, why the respondents have been selected and matters

of confidentiality and voluntary participation. Therefore a letter or statement was prepared to be shown or explained to the respondents before the interview. This letter was tested in the pilot run, where the respondents suggested explaining the letter verbally instead of giving a written statement, as this was seen as too formal. As all the respondents were well known to the researcher or have been recommended through a mutual friend, therefore it was suggested that the most appropriate method would be to explain the rational and issues involved in the introduction. This also helped to start of the conversation in a less formal way. Therefore the introductory page (Appendix 2) was verbally explained to the participants, in order to introduce the background and the aim of the study, as well as the ethical issues involved. Some of the ethical issues included the voluntary participation and the confidentiality of the candidates' background and the information provided.

The next section considered the justifications and conduct of the pilot test. Guthrie (1998), who conducted qualitative research in China, suggested to conduct extensive pilot interviews, in order to develop ways to present 'guanxi' in the least sensitive way, in order to make the respondents less defensive about the subject. The pilot interviews therefore assisted in fine-tuning the questions and avoiding misunderstandings. The issue of sensitive questions was tested in the pilot run. Kriz and Fang (2000) also highlighted the benefits of conducting pilot interviews in Asia, which helped the researcher to get familiar with the sensitive questions in action and the respondents' reactions. The pilot test also considered the correct sequence of the questions, by reflecting on the sensitivity of the questions. For example sensitive questions relating for example to the practice of giving favours and gifts were asked at the end of the interview, when the respondents felt more comfortable.

Once the interview guide and the introductory page were completed the interview was piloted. A total of four candidates were selected to test all the questions. The interviews took place in the same setting and time frame as the actual interviews. This also included the tape recording of the entire conversation as well as writing of

bulleted points for quick reference. Based on the responses, comments and suggestions of the participants, the interview guide and introductory page were revised.

Some of the changes made are as follows:

- just explain the introductory page verbally to the candidates, not to hand out the page to the candidates, as this was seen to be too formal
- move the personal information to the end of the interview, as participants are more willing to share personal data later, it is also conceived as less formal
- screen candidates at the early stage and do not include Human Resource Managers, as they did not have contact with business people in China
- add more specific questions, for example how a meeting is conducted, what is important to close a business deal, how long does it take to negotiate, how important is trust, face and respect, how important are contracts compared to trust, are there any risk factors involved in using relationships, are there differences in dealing with Mainland Chinese compared to Westerners, etc.
- ask the candidates at the end if they would like to add anything that they feel is important or that the interviewer may have missed, or if they would like to explain something further

The pilot test helped the interviewer to get familiar with the sensitivity of the questions as well as the reactions of the respondents. Most of the changes to the questions and the introduction, as well as the approach how to conduct the interview were then made after the third candidate was interviewed. As there were minimal changes during the fourth pilot interview, this candidate was eventually included into the final list of candidates to be interviewed.

Throughout the interview some practical tips as highlighted by Hermanowicz (2002) have been considered. First of all it was important to find a time and place, which was

suitable and convenient for the respondents, and then the interview started off with a positive note and a good introduction. This made the respondents more comfortable and relaxed at the beginning. Throughout the interview it was important to have a two way communication and conversation, to listen carefully and to probe through more detailed questions, in order to uncover the details and meaning. Bryman (2001) suggested using the general questions at the beginning of the interview, while leaving the personal or embarrassing questions to the end. The above author also highlighted, that questions should not be too long and ambiguous terms need to be avoided. The above tips assisted in getting honest answers and useful feedback and stories during the limited time available.

It was also important to consider the overall time how long the interview should last. Yeung and Tung (1996), who studied the importance of ‘guanxi’ used 90 – 120 minutes for their interviews, while Hermanowicz (2002) suggested around 60 – 90 minutes, with a minimum of at least one hour, in order to conduct a good interview. At the end of the interview it is necessary to end on a positive note, to pose some concluding questions and of course thank the respondents (Hermanowicz, 2002). Additional to the tips for interviews proposed by Hermanowicz (2002), it was also considered here to stay in touch with the respondents, in order to allow for possible follow up questions later on.

Finally it was necessary to consider and plan the number of interviews for this research. As there was limited qualitative research available on the issue of ‘guanxi’, therefore it was difficult to compare this to existing data. Yeung and Tung (1996), who are some of the few authors, who used qualitative research for ‘guanxi’, conducted 19 interviews. For this research it was planned to interview 15 – 20 respondents. Eventually 17 interviews were conducted. The rational for not conducting any more interviews was based on theoretical saturation, as the candidates repeated what was previously said and the same stories and ideas were heard again. Glaser and Strauss (1967) and Kuper *et al.* (2008) highlighted that data should be collected until



theoretical saturation has been achieved, as additional information will not contribute to or deepen the findings.

The interviews were tape recorded and transcribed in order to ensure that all answers could be considered in detail, no points were missed out and that misunderstandings did not occur. A thematic approach to analyze the data was used, which has been covered in the next section in more detail.

### **Analysis of Data**

The final step of any qualitative research is to find ways how to analyze and present the data and findings. As this qualitative research described the interaction and relationship between people and the interpretation of human phenomena, it was important to find a meaningful way how to explore and present the complex information.

The writer of this thesis has chosen the method of thematic analysis to analyze and illustrate the findings. Braun and Clarke (2006) have defined thematic analysis as a method to identify, analyze and report patterns and themes of qualitative data. The idea of identifying patterns and themes forces the researcher to make judgment about the information and give meaning to the data, which is also referred to as coding of data. Ryan and Bernard (2000: 780) defined coding as the ‘heart and soul’ of any text analysis in qualitative research. While there are different methods available to use coding and identification of themes, concepts and categories, the advantages and suitability of thematic analysis has been considered next.

Braun and Clarke (2006) argued that thematic analysis is a foundational method and a core skill for qualitative research, whereas Boyatzis (1998) regarded it as a basic tool, which can be used across different qualitative analysis. Some authors (Ryan and Bernard, 2000) regarded thematic analysis as located within other approaches like

Grounded Theory, whereas Braun and Clarke (2006) referred to it as a separate method on its own. There are various advantages associated with thematic analysis, which are beneficial for this research. Thematic analysis is a flexible method, which is easy to learn and does not require previous experience of qualitative research methods (Braun and Clarke, 2006). This method also allows examining the experience of individuals without trying to quantify the responses. Therefore the quality and meaning of a response is more important than the quantity of responses. It can also highlight the themes or similarities between patterns and summarize the main features of written data. Based on the above advantages, thematic analysis was used as the major tool to analyze and record the data of this research.

Braun and Clarke (2006) have identified six phases or steps for the thematic analysis, highlighting that the steps should not be linear, but rather a process of moving back and forth. The first three phases are to get familiar with the data by transcribing the interviews and reading the data several times before identifying some initial codes. The next two steps include the collection of codes into themes, which then need to be checked and reviewed and transferred into possible maps. The final step as identified by Braun and Clarke (2006) is to define and name the themes and produce the report. While the above steps of thematic analysis provide a frame to work with for this research, it is necessary to consider a few potential pitfalls, which every method will have. Caelli *et al.* (2003) have highlighted that researchers using thematic analysis often look at themes only and fail to look at the meaning of their findings. This is especially important for the study of social science like in the area of culture, and complex issues like 'guanxi'. Therefore the interpretation of the themes is important. For example meaning need to be attached to the themes and ways how to link or interrelate the themes to each other need to be considered. Another pitfall of thematic analysis as identified by Braun and Clarke (2006) is to ensure that the questions will not be used as the themes, and that the themes should relate to the central concept of the study. Therefore the analysis stage was important and crucial, where the real meaning and implication was considered.

Alternatively there are computer packages and software such as NUD. IST, OSR NViro and Ethnograph v 5.0 to analyse qualitative text. These packages manage and organize data, however the overall framework and meaning still need to be developed by the researcher. These computer systems may also be concerned with a more positivist view, as they try to ensure reliability and validity. This author opted for manual coding, because the time consuming task of reading and coding the data assisted in interpreting and explaining the meaning of data. Further it was also useful in exploring the integrated and dependent nature of the theme.

Overall the thematic analysis provided a fundamental framework for researchers with little or no experience and some flexibility to analyze complex issues like ‘guanxi’. The above benefits and steps to be used for a thematic analysis provided the basic guidelines for the analysis of this study. However additionally to the concerns and pitfalls identified above, it was necessary to consider the ethical issues for this research. The next section highlighted the ethical issues involved from the planning stage, throughout conducting the interviews, until the reporting and analysis stage.

## **Ethical Considerations**

The investigator operated within the framework of the Ethical Guidelines of the Social Research Association (SRA, 2003). These guidelines provided a code of practice for the safety of social researchers, especially in private settings. For example it encouraged procedures to reduce risks or harm to others. As the research topic involved the values and beliefs of human beings, the research faced ethical dilemmas right from the planning stage until the conclusion of the thesis. Therefore ethical issues were considered throughout the entire project.

Firstly the problem of gaining access to the candidates was considered. With this research being qualitative in nature and some of the candidates were approached through recommendations, the confidentiality of all parties involved was guaranteed.

An information sheet, outlining the aims of the research and the confidentiality of the data collected, was read and explained to the candidates before the interview. All data collected was then stored and analyzed in a confidential and secure way in order to protect the persons and organizations, because of the sensitive nature of data. This was done by storing the data gathered in a secured filing cabinet and therefore no person had access to the data. Any person or organization was not being named, instead pseudonyms were used. This followed Hitchcock and Hughes' (1995) recommendations that the researcher from the outset clearly explains the aims, objectives and methods of research to all relevant parties.

Further the topic of this research was also a reason for ethical concern. As the cultural values of face, relationship and favour were explored, the researcher was very careful not to embarrass any participants. During the actual data collection there was no pressure involved for the participants and they participated willingly and voluntarily. Considerations were also taken as to the right time for the participants to be interviewed, so they did not feel under time pressure. Further the questions were tested first in order to avoid ambiguity.

The conclusion and recommendation could cause another risk for persons and companies involved. In case it revealed that companies use a lot of favours to conduct business, this may be regarded as corruption. Therefore the result was carefully worded and any potential risks were avoided, by removing any identifying details about persons and organizations.

Another approach to outline the ethical dilemma would be to look at the obligation that researchers have to the different stakeholders involved (SRA, 2003). Overall it is the researcher's requirement to ensure the wellbeing of all stakeholders, before, during and after the research process. Firstly the society as a whole needed to be considered, for example the influence of 'guanxi' should not negatively impact the business society. Other stakeholders and the obligation to people who recommend the

participants were also considered. All participants were assured that the data is treated confidential, anonymous and that all participation is voluntarily.

As the research included participants and organizations not work related or business associated to the researcher, this did not cause any direct conflict. The possible implications of an ‘insider’ research project and the power relations that may arise while conducting research within an organization (SRA, 2003) were therefore minimized.

While the Social Research Association (2003) has considered the major stakeholders, two more stakeholders as suggested by Gayle (2001), were considered here. Firstly the scientific community’s reputation had to be protected, and it had to be made easy for future researchers to repeat a similar research later. It was also important to involve the supervisor throughout the entire research. Finally the ethical issues related to the researcher herself. As the researcher is a German national, this may have given her privileges or prevent access to some participants or even affect the trust of Chinese participants. As a researcher it was also important to be honest, courteous and professional at all times. This also meant to stay away from plagiarism and falsification of data and information.

## **Conclusion**

This chapter highlighted an important gap in academic literature, where this study could contribute.

Firstly the author of this research suggested that the study of ‘guanxi’ should be partly located within anthropology and ethnography, where the relationship and experiences between people are explored and described in detail. Therefore a qualitative research method was used, as it could better explore the lived experiences and perceptions of people, as well as the sensitive and changing nature of the subject. This could be

linked back the proposed model of culture (Diagram 4 in Chapter 2). The qualitative research with its face-to-face semi-structured interview could capture the values (what should be done) as well as the practices (what is actually done). At the same time the changing environment of business practices and the external forces could be considered.

Another interesting point to highlight is that the researcher used personal relationships to get access to valuable data for the study of ‘guanxi’, as well as her own insider and outsider perspective contributed to the study of Chinese culture.

The research method proofed to be an important, interesting and valuable approach to explore cultural values and changes in China. Therefore this qualitative research method contributed to existing research, which has often been based on quantitative methods.

The finding of this study has been presented and analyzed in the next chapter.

## **Chapter 5**

### **Findings and Analysis**

#### **Introduction**

Whilst the popular saying that “China is a land of ‘guanxi’ “(Tsang, 1998: 67), may still be true for some businesses in China, there are also many changes happening. The aim of this thesis was to explore how the traditional concept of ‘guanxi’ works in modern day China and the recent changes. This was done by describing and analyzing the lived experiences of Hong Kong business executives, when dealing with Mainland Chinese partners.

In this chapter the findings and analysis have been presented. With the large amount of data generated, several trends have emerged, which were broken down into major themes and building blocks of ‘guanxi’ practices related to recent changes. It is suggested that many elements of ‘guanxi’ practices are still prevailing, however in a changing format or process. These building blocks of ‘guanxi’ also showed interrelated processes between the elements. Some authors including Fock and Woo (1998) and Tsang (1998) identified the elements of ‘guanxi’, which are important to build and maintain ‘guanxi’. However they have not linked the elements or suggested any relationship between them. Therefore this thesis presented an interesting finding, how the elements are interrelated and affect each other. For example the practice of giving favours and benefits depends on trust between people and also favours give face and respect, especially to hierarchical high standing persons.

Additionally the findings revealed some extra themes and topics, which were not expected initially. This included perceived changes that can be linked directly to practices in very large organizations, which seem to be no longer reliant upon the

traditional Chinese methods of conducting business but instead follow more international practices. Further there are changes linked to the emergence of the new generation of managers in China, as well as the perceived geographic differences between practices in Beijing, Shanghai and Guangzhou. Finally all the findings, which are expressed through the actual words of the respondents, were linked to the academic theory of the literature review. This resulted in evidence that ‘guanxi’ is still important, however the process is changing. Therefore ‘guanxi’ may not be a result of culture alone, but rather a result of historical and structural (Hwang 1987; Tsang, 1998), institutionally (Guthrie, 1998) and political related (Redding, 1993) changes.

The main findings described how to establish business relationships with Mainland Chinese executives, which were shown through the experiences of Hong Kong managers. It is noted here that all the findings are expressed through the lived experiences and practices used, as well as the perceptions of Hong Kong executives, when dealing with their Mainland Chinese business partners. The main findings can be summarized as follows:

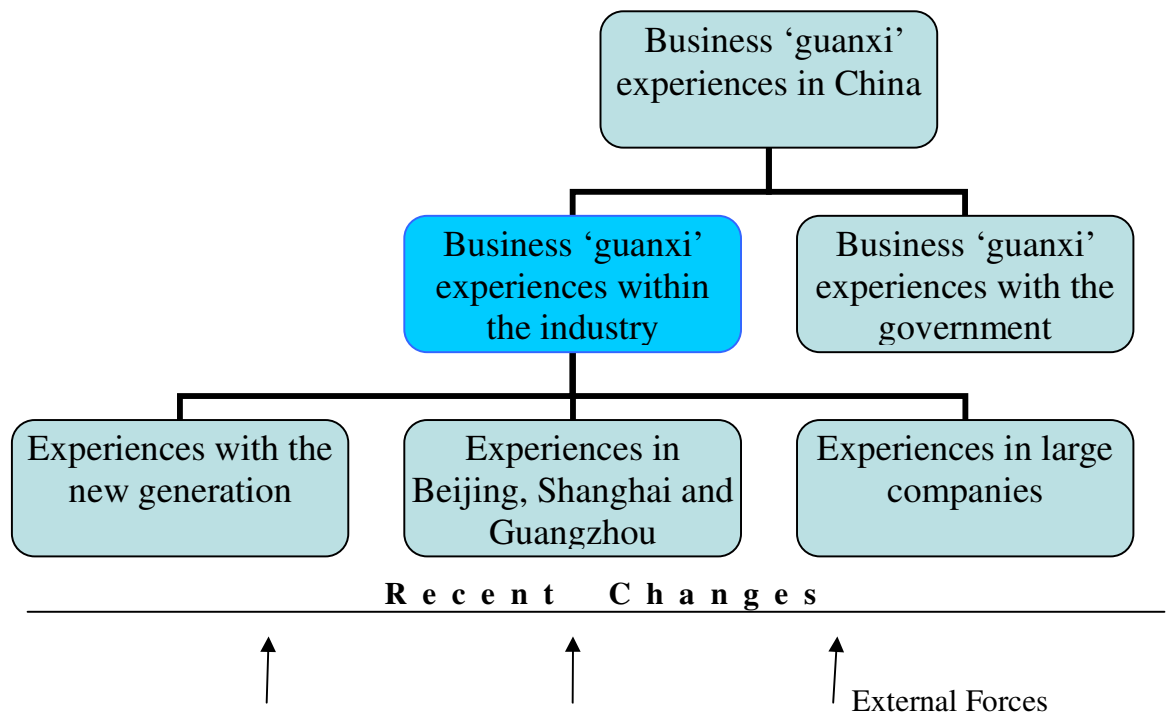
- The traditional concept of ‘guanxi’ is still important for modern businesses in China; however it takes a changing role due to external forces.
- The elements and characteristics of ‘guanxi’ are interlinked and dependent on each other and some elements have changed due to the pressure of internationalization and economic growth.
- The experience and perception of Hong Kong executives indicated that the practices are differently perceived when dealing with the government sector, the new generation, as well as due to company size and geographical locations.



## **Findings through the Thematic Analysis**

After the interviews were transcribed, the method of thematic analysis was used to analyze the findings. This included reading the transcripts several times, in order to get familiar with the data. Then throughout the reading similar topics and themes were identified, by highlighting the related sentences and paragraphs and adding the theme or code to the side of the papers. For example when respondents talked about inviting business partners for lunch or dinner, then the topic of ‘socializing’ was added. Further when gifts or invitations were exchanged between business deals, then this related to the theme of ‘favours and benefits’. Then all the themes and topics were reviewed, analyzed and transferred into possible maps. For example the themes of ‘socializing’, ‘favours and benefits’ and ‘giving face’ related to the concept of building and maintaining ‘guanxi’, whereas the style of conducting business much faster related to the recent changes. Additional to these major research areas, there also emerged some additional themes, like the different experiences associated with the government, large companies, the new generations and regional differences within China (Beijing, Shanghai and Guangzhou), which were not expected initially. It is noted here that ‘guanxi’ has not been measured or compared to other data, however it has been interpreted through the lived experiences of Hong Kong executives and how they perceive the business relationships with their Mainland Chinese partners. The emerging themes are shown in diagram 5.

Diagram 5: Thematic Analysis: Map of Emerging Themes



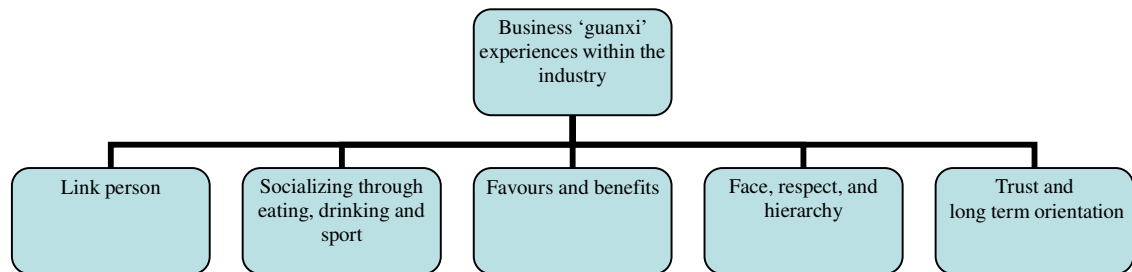
The first two themes referred to business ‘guanxi’ experiences within the industry and business ‘guanxi’ experiences with the government. The other three themes related to perceived differences due to the new generation, the geography in China (Beijing, Shanghai and Guangzhou), and the company size. All the experiences and perceived differences are underpinned by recent changes, which have been affected by external forces such as institutional and political changes and economic growth. This diagram can also be linked back to the proposed model of culture (Diagram 4, Chapter 2), where the external forces affect the cultural values. It is important to note, that the business ‘guanxi’ experiences within the industry has emerged as a central theme underpinned by the building blocks of ‘guanxi’ experiences in diagram 6.

After the themes have been identified, they were linked to the respondents’ background, as some of the answers were different. Therefore a central chart with two

columns was prepared, in order to link the answers or themes to the background of the respondents and identify a potential pattern. The left hand column included the background of the respondents, like the gender, education, company size and the sector or the industry of the organization. Then in the right hand column all the topics and themes or new ideas and comments were added. This chart provided then a more visual picture and the links between the demographic information and the different experiences of using ‘guanxi’ became clear. For example some perceived differences emerged due to the size of the company, where respondents of very large multinational organizations referred to the relationships as a universal concept and did not identify any specific Chinese cultural practices.

This chapter presented firstly the findings related to the experiences of ‘guanxi’ especially how to build and maintain the relationships in China. This can be grouped into two major areas. The first area related to the experiences with business partners in the commercial industry in China. The second theme focused upon the government officials in China. While the respondents talked about the way how to build and maintain their relationship, certain topics were frequently mentioned. All of the topics involved the experiences of ‘guanxi’ and can be described as the building block or character of business relationships in China. The findings were presented according to the key topics of ‘guanxi’ (Diagram 6), which emerged from the interviews with the respondents.

Diagram 6: Building Blocks of Business ‘Guanxi’ Experiences within the Industry



### **Business ‘Guanxi’ Experiences within the Industry**

The following key topics of ‘guanxi’ have emerged through the interpretation of the respondents words while talking about the way how to build and maintain the relationships within the industry:

- link person,
- socializing through eating, drinking and sport,
- favour and benefits,
- face, respect and hierarchy, and
- trust and long term orientation

In this chapter each topic has been explored separately through the words of the respondents, before summarizing and coming to a conclusion for the overall ‘guanxi’ practices.

**It is noted here that the actual names of all the respondents have been changed to protect their identity.**

### Link person

Most respondents explained that the way how to initiate and build relationships and connections will be done through a key or link person. Therefore it appeared that the link person plays an important role in initiating 'guanxi'.

Peter: *"You know in China, they have, what they call a secretary authority, most of the governors/bosses have their secretary, it is not a female, it's a male, mostly it's a male, so if you have a good connection or a good relation with the secretary, you have it much easier to find a way to arrange a dinner, or to arrange a function, or to arrange a meeting, otherwise it's very difficult to arrange to have a meeting with their boss, because you block a lot of doors, but if you have the key to open the secretary's door, yes, then it is much easier, it will be faster...this is what they call connections to the key person, every boss has three key persons, one is the secretary, one is the driver and one is the wife...get close to them first, then it's more easier, otherwise no, otherwise you need to run a long way to have the connections with the company, what you call 'guanxi' is not with the boss or with the partner, the 'guanxi' is with the second level people...so once you go to the boss, you pass a lot of gates already, that time you no need to spend more money or more time...."*

It is interesting to note that Peter referred to the link person as an important person to build the relationship. Therefore the network exists with the link person as well as with the boss or the business partner.

Winnie: *"So you have to try a few times, sometimes if you know someone to introduce you, that it's even better, that is what you mean with 'guanxi'...if you don't know anybody in the company, yes then you go through the receptionist, and then slowly go up, but nowadays, because*

*people have no time to waste in China, things are so fast, they will not waste the time to get to know the secretary or middle management, I would rather waste my time to find, who knows the boss, you know, like you try through connections, ...you get to the people who are close to the boss, that's why the network...but if I know the boss, I would go for the boss right away, if you have the contact up there, I would go directly to the boss and normally it's not that difficult, because they still give a bit of respect to people from outside, outside, meaning Hong Kong or outside China..."*

Mable: *"If I arrange a meeting with the boss,...I normally try those sources referred by maybe the business partner or maybe my friends, because local calling, it is very difficult to do any cold calling in China, not like Hong Kong, in Hong Kong I can search the listing from the website, or the internet, so in China we don't know where they are, so normally they are referred by our business partners, existing clients and my friends, or they are referred by the bank..."*

An interesting point emerged here from the comments by Winnie and Mable above. It seems that the relationship between Hong Kong and China is different, as Hong Kong people are seen as 'outsiders'. This is also suggested by Doreen as follows:

Doreen: *"...but to start off it is difficult, because if I don't know them it is difficult to approach them, so you need to have an introducer, somebody who introduces me to the right client or prospective client, you know in China it is different to Hong Kong, if you don't know them, you can't knock the door, they will not be interested, you can't just call them or talk to them directly, you need to have a friend or partner who introduces you to them, then it is easier..."*

The comments above by Doreen presented an interesting perspective. While conducting the interviews most participants agreed that the practices in China are different to Hong Kong, which is an international city with international practices and standards, whereas China is still in a transitional stage of economic growth. Therefore some of the traditional practices like using relationships to get to the boss are still relevant in China. Further research would be necessary to explore if and how far the link person is involved in the process of establishing and maintaining 'guanxi'. The link person is often there to initiate the contact between two parties. The respondents have referred to friends and to existing business partners or clients, who are the link to introduce them to prospective business partners. This is a more common definition used by writers such as Yeung and Tung (1996) who argued that the way to initiate 'guanxi' is done through 'altercasting' the social network, which is often through a mutual friend or an intermediary. Further Chua *et al.* (2009) suggested that Chinese managers establish networks not only directly to influential people, but also to those who are connected to them. These connections are valuable indirectly through their contacts. This is confirmed by the comments of the respondents, who agreed, that the link person often plays an important role in initiating 'guanxi'.

Through the interviewees' comments above, which are based on the experiences in China and the interpreted behaviour of their business partners, it is suggested that 'guanxi' involves a link person, or a middleperson, who will introduce the business partner or the boss. Often new clients or business partners are referred through this link person or the connection to the boss is established through a person which is very close to the boss. It seems to be quite difficult or time consuming to establish the relationship directly with the boss or partner, therefore the ideal way is to go through an intermediary. However changes can be seen, that people are very busy and do not want to waste time to go through many levels and layers of connections, they may even contact the boss directly.

As illustrated by the respondents' comments, it is suggested that the link person still plays an important role in two ways. Firstly it is sometimes the link person who is the most important person to influence the superior. The link person could be a person very close to the superior, or it could be somebody from that village or province, or somebody from Hong Kong, who has close contact to the key person. That means that the connection is initially with the link person, not with the boss or the business partner directly. This is contrary to the common definition of 'guanxi', which often refers to a personal relationship (Lee and Ellis, 2000; Leung and Wong, 2001) or personal connection, where all parties involved must benefit from the transaction. It is interesting to note that the link person could also play an important role, which has been overlooked by previous studies including those of Lee and Ellis (2000) and Leung and Wong (2001). The importance of the link person can be referred to the changing role of Hong Kong, which has shifted the labour intensive manufacturing industry to China (mainly the Pearl River Delta), therefore becoming a service oriented state (Tuan and Ng, 2004). Therefore Hong Kong is the gateway for Western organizations conducting business in China. Hong Kong has become an intermediary for business from the West to enter China, which can be confirmed by the comments above about the link person.

### **Socializing (through eating, drinking and sport)**

An important element of 'guanxi' is the socializing part. All respondents have mentioned that some sort of socializing function, either through eating or drinking or playing sports, is involved. The socializing part did not only help to build and establish the relationship, but also to maintain the connection and network over time.

Stanley:        *"...you first of all meet in the office, Ok, and why, you meet in the business environment, you do not start off with a meal, ... this is relatively new, because of corruption opportunities, and they do not want to be seen that way, so people in China are very sensitive, if you*



*say: can I meet you for lunch, they will not do that, ...so for the first few meetings, they are conducted in the office....so that's where you start and then when you get more familiar with them, ...then you start having lunch meetings and dinner meetings and so on...gradually it will become a social basis, but at the beginning it is very strict business...it's slowly changing now, because they just say: how is the weather and then really they get on with it already, because they become more corporatized already...when you come to China now, you pretty much get on with it, you start off with two unrelated questions , like how was your flight and then get on with it..."*

The comments by Stanley highlighted that the socializing aspect is diminishing, as business is conducted much faster. This is also suggested by Lilly as follows:

Lilly: *"...we usually have one or two luncheons to socialize and discuss and negotiate, but last time we had three luncheons with them to talk about business and then we agree already, you see much faster, they are busy people, they do not have so much time, they do not want to waste too much time..."*

Peter: *"So you need to participate in the function more, to show your face, to the people, that means your social life should be for all, all directions...my boss, he entertains the business partners, so in return the next day is the return dinner from the other side...another experience for the evening, we go out, after the business, I go out with one of my partners, it's a men talk, so we go out to one of the Karaoke bars..."*

Andy: *"...if you want to strike a business deal...you know, inviting them for lunch, inviting them for dinner is still a kind of prevailing factor, still a*

*practice and say for example if you are a male, Ok, when you have the lunch or particular the dinner, you really have to drink wine with them, drink alcohol with them...”*

The comments by Peter and Andy above raised some gender issues here, which are also highlighted by Winnie and Mable below.

Winnie: *“...well drinking is another big thing, that happens more in the Northern part though, like in Beijing or in the smaller provinces up North, drinking has been also perceived as a way of respect, because if you can drink they would see you as a hero,... those people who can do big business can drink and they have to drink very well...”* (It is noted that Winnie is describing her colleagues and business partners here, not herself.)

Mable: *“...they will have some social events with us, for example they asked my boss to play golf, they know how to play golf, yes and then drink wine, and then they will ask my boss, normally they want to have some sort of functions with men, not women, they will take me to have dinner, but then they will not take me to the massage parlour...but first of all, they will think about your business is fit for their business, then the first meeting we discuss business, and then after the social function will come...”*

Mable and Winnie’s comments raised an interesting question related to gender. While drinking wine and playing golf is an important part of socializing in China, these activities exclude women. Rowley and Yukongdi (2008) argued that women are under-utilized and under-represented in management in Asia. However as discussed with the respondents, the females did not feel that they are disadvantaged in doing business in China, except they may be excluded from certain social activities.

The socializing aspect seemed to have changed, as it often followed the business aspect and is not as elaborative as in the past. People seemed to discuss business first and then the social element followed later. It is more important to talk about business first and then the social part in the form of luncheons, dinners, bars or sports followed. The whole practice is also getting faster and more Westernized. Sometimes they even discussed the business during the lunch, in order to save time. Faure and Fang (2008) argued that due to the high speed of changes in China, people are more short term result oriented than before and time becomes money. This is reflecting the Western approach of avoiding wasting time. This contrast of time wasting is reflective of Trompenaars and Hampden-Turner's (1993) study, who argued that Western cultures see time as something that may be wasted. This is contrary to Asian countries; where traditionally more time was spent in discussing business issues; however this has begun to change, which has been mentioned by the respondents above.

The respondents highlighted the changing nature of the socializing aspect, which appeared to be diminishing. Part of this diminishment can be contributed to the fact that business is conducted much faster, less time is spent in the socializing part, as people are very busy and want to save time. Furthermore the socializing aspect of going out and eating and drinking may be a way of life rather than part of business in China. This challenged some of the academic literature, which referred to social activities as a typical characteristic or element of 'guanxi'. For example Fock and Woo (1998) argued that social activities and entertainment are one of eight characteristics, which are necessary to build and maintain 'guanxi'. Furthermore Yeung and Tung (1996) argued that the instrumental nature of 'guanxi' is one of the five fundamental dimensions, which is practiced through the exchange of gifts, entertainment and favours. Chua *et al.* (2009) echoed this view by suggesting that business relationships often develop through sharing meals, gifts and socializing activities. The social activities do not only happen at the dinner table nowadays, but also at fashionable places like the golf course (Faure and Fang, 2008). Contrary Guthrie (1998)

highlighted a diminishing role of 'guanxi'. Based on the respondents' comments, it is suggested that the socializing part still plays a role in establishing and maintaining the connections, but it shows a diminishing role, as less time is spent in cultivating the social activities.

Further the comment by Stanley about corruption also highlighted the ethical issues and potential risks of getting involved with corruption (Dunfee and Warren, 2001), which plays an important role in China. The business people are more careful now in China, and will not participate as quickly and excessively in social events anymore. Therefore Hong Kong executives also have to respond to these changes and be more careful in order not to invite their business partners to excessive social events.

The theme and the importance surrounding the issue of eating and drinking are strongly related to the issue of face and respect, which has been covered later.

### **Favours and benefits**

An important element of 'guanxi' is the exchange of favours and benefits involved in establishing and maintaining the connections. The majority of the respondents talked about their experiences with favours in great detail and elaborated quite a bit on this issue.

Peter: *'there are a lot of stories to make a business deal...like one simple fruit basket, inside they have one credit card, a credit card with unlimited spending, a very simple fruit basket, ...because if you give them a big basket and inside they have a lot of expensive items and then people will talk, oh he's got a very big and good basket, so it is very simple now,... or a key for an apartment...for the business deal they have one deal which is for their family, if they have a son or a daughter, they bring them to the other country for study, many big companies they sponsor a lot of government people, the next generation to study in the*

*United States, to study in Australia, to study in Europe, this is also one of the deal, this is a good deal, the immigration or education, or passport, ya sure there are a lot of this kind of stories, ...like you can find in Canada, one of our relatives, they are living in Canada, next to them all are the relation to China, and they have a lot of money, but they are not working, even they don't speak English, they just live there and drive a big beautiful car...still a lot of this kind of stories..."*

Mable: *"...the people in China they want to get some benefits, or some advantages, or convenience from the bank, ...for example they may ask us, our help to help them to be listed in Hong Kong, or ask us many, many questions, that is related to the economy in Hong Kong, so they just want to get some more information about the world, ...they want information, rather than the gifts, they want us to help them for example, they want to migrate to Hong Kong first and then migrate to Canada, they will ask us what method is best, what channel is best, and ask us to recommend some agency, the immigration agency for them, and ask us to recommend some middle man to help their business to help their life, rather than the gifts, because you know, they come to Hong Kong it is very easy now to buy things, so they don't want the gifts now, now they want information, they want us to introduce some good partners to help them develop their business and also help their life to become better...the rich guy are very rich now, they want information, they want relationship, they want connections with outside, with the guy outside China, with anything outside China,...yah, no money, they are much more richer than us, ...they will also help us, they will introduce some officer in the government to help us to get the license,...normally they also want me to introduce some banks for them, especially their money cannot come up to Hong Kong easily, there is plenty control in China, so it's difficult for them to get the*

*money out, to transfer the money out to other countries, but they normally, they will ask us, then we may help them, help them to establish the, how to transfer the money, many, many methods, but not done by use, but we will introduce some agency...they will ask us to introduce banker, immigration agent, introduce how to let their students study in Western countries, and they want to open a bank account in Switzerland and what they wish to pay attention and then we give them the information...I think they are more creative to create the business opportunities..."*

Based on the comments above it is suggested that favours take a more indirect and less materialistic way. This is also confirmed by the comments by Lucy and Lilly as follows:

Lucy: *"...we have to give them something, this is normal, sometimes we also give them coupons, so they can use the coupons, but it has changed now, it is not like before, before they take money, but now they cannot, there is less under the table money, now there is no real money involved, maybe coupons, you know..."*

Lilly: *"...we don't give them presents or gifts,... but of course they still want to get some kind of benefits or help from us, like for example, they ask us to help them to get a visa, so our company helped them to get a visa faster, we can speed up the process, so they don't have to apply and wait so long, and they also ask for help to stay longer in Hong Kong, so we can get a special visa or an extension, that they can come faster, and easier and stay longer in Hong Kong, sometimes they even want to get a HK Identity Card, ..."*

There are still favours and benefits involved in establishing and maintaining the relationships and connections. However the changes here are illustrated by favours being not so direct like in the past. Now there are more indirect ways involved in providing favours to the business partners. Based on the comments and experiences of interviewees, the Chinese business executives are much richer now than before and prefer more indirect benefits or information, which would not be available otherwise, or benefits which they could not buy with money.

Therefore the favours are not only referring to gifts or materialistic rewards as in the past; however they are increasingly related to indirect or less materialistic ways. Some respondents mentioned that information, relationship and assistance with banks, agencies or the immigration department become increasingly important. This change has often to do with the implementation of new rules, regulations and laws, which prevent accepting direct favours, gifts and presents. This may challenge some of the academic literature, including Su *et al.* (2007), Tsang (1998) and Yeung and Tung (1996). For example Tsang (1998) referred to gifts, as one of the necessary five dimensions to build 'guanxi', while Su *et al.* (2007) suggested that gift giving is a typical way of developing 'guanxi'. Further Yeung and Tung (1996) argued that the exchange of favours, could be easily duplicated and therefore the relationship becomes fragile. This is rather the contrary now, as some of the favours mentioned by the respondents, like the help with the immigration department, can not be easily duplicated. Further it is interesting that Fock and Woo (1998) have separated some of the characteristics of 'guanxi' into the exchange of favours and information. Nowadays the exchange of information is seen as being very important to build 'guanxi' and it seems to take an increasing role, as business partners in China are very eager to explore the business opportunities outside China.

Giving favours is also related to obligations, which is shown by the following comment.

Stanley: *“I do you a favour, you don’t have to return it today, you don’t have to return it tomorrow, you return it one day, when I...it’s like a credit,...but if you don’t return it then you get a bad credit, and then the bad credit gets learned about by your next ‘guanxi’, your next person or the common person you know, you basically will not be favoured as much, your status goes down lower...”*

The comment by Stanley suggested that giving favours involves liability to return that favour one day. This is also suggested by Chua *et al.* (2009) and Su *et al.* (2007), who argued that ‘guanxi’ will incur an obligation to reciprocate when the need arises.

Further the business executives also have to be more careful now, as not being perceived in taking part in bribery and corruption, which has been illustrated through the following comments.

Tom: *“...now it is much cleaner, they don’t want to take risks, you know, it is too dangerous, there is the death penalty, they cannot take risks, so they have to work much smarter, they choose a smarter way now...they are much smarter and direct now, they want a better life, so they want a higher position, they want salary and benefits, so they ask for a better job, a better position and more money, but it is their salary...”*

Winnie: *“...especially in Beijing and Shanghai, you don’t give them money or give them gifts or whatever, you talk to them like a good friend...you find a common topic, something that both like, like if you know them, they play golf, then you would tell them, let’s play golf, you try to get into their interest of them first, instead of just right away, like trying to give money or trying to bribe them, people are very careful now, because they want to be more international, they want to follow the international standard...they are very careful, because they don’t want*



*to be perceived as taking something from you, so you have to try a few times...”*

The respondents mentioned that people in China have become more careful now in conducting business, as they want to avoid the risk of being associated with bribery. That means, previously the practice of taking favours and benefits was easily associated with risks, dangers and bribery. This can be linked to Fan (2002), who argued that ‘guanxi’ could be a scrupulous and corruptive practice as well as Lee and Ellis (2000) who perceived that potentially corruption poses the greatest risk for Chinese businesses using ‘guanxi’. It is interesting however that Lee and Ellis (2000) mentioned that corruption is often seen as a response to a weak institutional and legal system. As the legal system is getting much stricter, people are more careful and they also want to follow more international standards and do not want to be perceived in taking advantage or bribery. Most respondents mentioned that some kind of favours and benefits still take place, however in a more indirect way and an increasingly less materialistic way. As this results increasingly in an exchange of information, help, assistance and connections, instead of direct materialistic things, the risk of corruption seems to be decreasing. This would reduce the disadvantages associated with ‘guanxi’ as highlighted by the following authors. Dunfee and Warren (2001) argued that ‘guanxi’ could be problematic in reducing societal wealth of an economy, benefiting a few people at the expense of others and violating rules and duties of social norms. Furthermore Chen and Chen (2009) and Luo (2008) argued that ‘guanxi’ may show increasingly negative implications, while Guthrie (1998) advocated strongly, that ‘guanxi’ practices can become dangerous, unnecessary and corrupt. This is contrary to the experiences and interpretations by the respondents, who suggested that the business practice of exchanging favours has become less direct and materialistic, that means the danger and ethical issues become less relevant nowadays. Therefore the Hong Kong executives also have to respond to these changes and be careful not to be seen in giving materialistic favours and gifts.

The favours are also linked to trust, as the people have to be more careful now, they will only accept the favours, gifts and benefits, if they trust the person a lot, which is illustrated through the following comments:

Winnie: *‘...now no longer, you would slip money under the table, or you buy them a car, or whatever, you don’t do that anymore, but now China had come up with so many different ways to benefit the person, without being too obvious, and in hotels we have one big debate about this area, we have something called a prepaid card a deposit card...you buy this card, you deposit let’s say 20,000 in xxx hotel and then you take the card, I give you as a present, as a gift for you, Chinese New Year, that’s from xxx hotel, an international company, right, they are associating, so nothing can go wrong, that you can go there and spend, so the card carries a value and the persons accepts the card as a gift only...no record, right, and then I give it to anybody and I can always top up this card...anybody else can top up this card, that’s the crazy part about it,... or they apply for the kids to go and study abroad, that is still happening, that is still very common, because certain country you need a guarantee, you need not just money, not just because you have money and you are allowed to go, so that’s a very good weapon too, a very powerful weapon, it’s like having a hostage, like your son is staying in my house in London, you know, but now the Chinese are very rich, maybe they don’t, they won’t accept this anymore, they will only accept it if they trust the person a lot...’*

Doreen: *“...it has changed now, because they are richer now,...we don’t need to give them gifts like watches or cameras any more, they can buy much better products, because they are rich now, what they want is service, we need to give them service, they will tell you what they want, or they give you hints, like for example the spa in Switzerland, so we had to*

*arrange this trip for the wife and the husband to go there, we arranged the tickets, the hotel and the spa, everything..., or we help them to get the connections to overseas, for example, some companies also help them to sent their children overseas, to study there or work there, ...for example we arrange one month internship for one of the children of the clients in Switzerland...and sometimes they will ask for help with visas, with the immigration department, there are different services or help they want, but often outside connections...they will tell you what they like to have, but not at the beginning, you first need to build up the relationship with them, and it is also very important that they need to trust you, before they give you any hints or tell what they want,..."*

As the respondents mentioned, that favours are only given if trust has been established, this indicated that there is a link and integration of some elements. For example trust is necessary before favours are given. This relationship has in general been ignored by some authors or it did not exist previously. For example although Buttery and Wong (1999) and Tsang (1998) argued that favour/gifts and trust are key constructs or dimensions of 'guanxi', they did not indicate any relationship between these elements. In a more recent study Lee and Anderson (2007) argued that trust is important for reciprocal obligations, but they did not explain the relationship between these elements further. Therefore the elements of 'guanxi' should not be seen as separate building blocks, but rather as interrelated elements, which are linked with each other.

Furthermore the favours are also strongly related to face, respect and more long term orientations, which have been explored in the next sections.

### **Face, respect and hierarchy**

Face and respect are important elements of 'guanxi'. Face has been described by Hwang (1987), Leung and Chan (2003) and Tsang (1998) as a crucial and important part of the Chinese social networks. Further Fock and Woo (1998) referred to face and respect as equivalent terms and important elements of 'guanxi'. All of the respondents reported experiences of giving face and respect, while discussing the ways how to build and maintain 'guanxi'. These two elements are also strongly related to each other, as they often have been mentioned at the same time. Furthermore the socializing part of going out for lunch and dinner and the drinking events, as well as the practice of giving favours and benefits are linked and related to the issue of face and respect. For example inviting people to expensive dinners, drinking a lot or giving expensive gifts, means the person is given face and respect and a higher social standing. Interestingly people higher up the hierarchy should receive more face and respect. Therefore these important elements of face, respect and hierarchy need to be discussed at the same time. Fang (2003) also suggested that face is highly associated with other Chinese values, like relationships by status and favours and gifts. Finally while there is evidence from the respondents experiences to suggest that there are noticeable changes, at the same time it is important to keep basic Chinese cultural values, such as face and respect for hierarchy, which will be highlighted through the following comments:

The socializing aspect of going out for lunch and dinners is related to giving face:

Peter: *"...that restaurant is fully booked for 2 months, you can't book the room, but my boss, he called the owner: OK, I want that room tonight, ...he gets the room, but if we try to call,... No, you cannot, No,... so that means they are the face artists, they give you the face, because my boss is one of the famous guys, ...the business partner blocks the whole restaurant for the return dinner, so that means face,*

*you see, I can block the whole restaurant for you...”*

Winnie: *“ You need to give face to the boss of course, especially when they are with their whole staff and entourage, you need to always respect them, that’s why Chinese are very particular about, for example seating plan, when you buy them dinner, where you seat who, that’s very important for Chinese...the very important guest is always sitting next to the host on his right and that’s the seat people perceive you as very important,... the one that is sitting with the boss are perceived more important and those people at the other table are downgraded,...and you will offend somebody if I don’t get to sit on the head table, I’m nobody...”*

Sometimes other social functions will be used to give face to the business partners, especially for building and maintaining the relationship, as illustrated here:

Doreen: *“...we go to social functions to meet the clients, because the Chinese like to show off, so the function, like the wine tasting, watch exhibition or the golfing, it is there to show off and to give them face or to gain face in front off others, if you can drink good wine, expensive wine or buy expensive watches, that means you can show off and also get face, and at the function we can also show them that they are important,...we also need to contact them regularly, like for example two to three times a year we need to have functions for them, or we will organize parties, so we need to stay in touch and socialize a few times a year with them...”*

Drinking is also related strongly to giving face and respect as illustrated here:

Andy: *“...You really have to drink wine with them, drink alcohol with them*

*and if you don't drink, then it will be regarded as a kind of not showing respect to them, so this is still prevailing..."*

Winnie: *"When you are dealing with a boss, you should drink moderately, but to a certain point, they will also expect you to get drunk,... if they can get you drunk, they feel they have conquered you,...so if you get drunk easily, you are weak, but if you challenge me and you keep drinking, and they will want to conquer you by getting you drunk and if you collapse before them, then they feel they win,... it is also a form of respect, if you don't drink you don't give me face, so you have to try..."*

(The above comments by Winnie are made about how her male colleagues behave, not about herself as a woman.)

While Winnie described the social activities about men, this raises some gender issues. However Winnie did not feel disadvantaged as a woman, while she may be allowed to participate in the drinking activities, it is not necessary for her to participate as a woman. Therefore she felt that it would be easier for her to get away with not drinking so much as a woman, compared to her male colleagues.

The next comments illustrated how giving face and respect is related to hierarchy, especially to persons of higher social standing.

Stanley: *"The title is very important, you feel insulted, it's like, she sends this secretary to come in, talk to me, so the other person will feel insulted, you think, that I'm the grade of a secretary or a clerk or something, it will not be as smooth as...they feel sour about it, they feel inferior, so you cannot make them feel inferior, because you are not respecting the other party, so sometimes we have to fly in people from America to come and meet the people in China, because there is no protocol of the*

*same status here in Hong Kong,... but you try not to meet so many times if possible, because if you meet too many times the person is not that superior any more, so try to avoid too many times, I call it the 'Greater God Theory', like you bring your God, I bring my God, but they should not meet too often, because if they meet too often then that superiority is disappearing..."*

Tom: *"the big manager, he talked directly to the workers, even though he is responsible, he should not talk to the staff directly, he should talk to the local manager, and then the local manager talks to the staff, so he bypassed the hierarchy, and he was also very rude, you know, you can't do that with Chinese, so he got into trouble, problems came up, so the whole plant stopped working, all the staff stopped working and the factory stopped....you cannot bypass people and be too direct, so I think, face is still important, they still need to give face to the local managers,..."*

The issue of face and respect is also related to favours and gifts, which has been illustrated as follows:

Lucy: *"...when you give them presents, when you buy something, make sure you leave the price tag on, then wrap it up, when you give them the present they will not open it anyway, in order not to lose face, but later when they open it, they can see the price tag, so you can give them face, if you buy an expensive gift..."*

Above it has been illustrated that face, respect and hierarchy are still prevailing and that these elements are strongly linked to the socializing aspect of luncheons, dinners and drinking, as well as the favours and gifts. The quote by Tom has shown that the elements of face, respect and hierarchy are interlinked. It is still important to show

respect to high standing people like the ‘big manager’. Therefore the power distance as highlighted by Hofstede (2001) is still important, however it may be declining. The concept of giving face seems to be an important aspect for Chinese business executives, as most respondents have elaborated about this in more detail. This aspect has been ignored by some authors. For example Yeung and Tung (1996) have not included face as part of their key dimensions of ‘guanxi’, while Tsang (1998) mentioned the issue of face, but did not link it to other elements. It is interesting that Fock and Woo (1998) mentioned giving face and respect as one of their eight characteristics of ‘guanxi’, which means that they referred to face and respect as equivalent terms. However, the issue of face is much more important for Chinese, as it gives them a high social standing and they feel important and valued, whereas the issue of respect alone does not achieve this kind of high standing. Therefore respect alone does not seem to be an important element of ‘guanxi’, and it appears to be rather a universal concept, which is illustrated as follows:

Mable: *“I think everyone likes respect, but not like before, not like the old generations, you need not to be very, very polite and need not put our position so low, the level is the same, it’s the same level, no need to put our position very low and their position so high, no need...I think equal level...”*

Lilly: *“I think you need to give everybody respect, this is normal for any business, I think respect is universal for any international business, it is the same for any business or any country, I would do the same with Westerners, everybody should get respect, especially if you deal with business partners and the hospitality industry, you should treat everybody with respect...”*



### **Trust and long term orientation**

The remaining elements of building and maintaining relationships are trust and the long term orientation. Trusts has been identified by many authors such as Buttery and Wong (1999), Chua *et al.* (2009); Fock and Woo (1998), Tsang (1998) and Yeung and Tung (1996) as an important element and characteristic of ‘guanxi’. The long term orientation is also related to favours and gifts, as well as face, respect and hierarchy. Most respondents have mentioned the issue of trust and the long term orientation, which is suggested to be changing. For example the long term orientation appeared to be not so important anymore for certain aspects, as business is conducted much faster.

Generally business partners tried to keep the relationship for a long time, even if they have to terminate the contract; they still retain the connections, as illustrated here:

Andy: *“you still have to be a bit more cautious when terminating the relationship, before you terminate the contract,...you should explain to them why we have to terminate the contract and you should not be that direct, you should give them some reasons which would make them feel more comfortable, which would really be very much concerned about their face, even if you are going to terminate the contract, give them some favours, you may still like to give them some gifts, for thanking them for the kind support so far, because you never know, probably they may have relationships with the other service providers as well, they may be black mouthing you,... they may as well complain to the government body,...never close any door...”*

Trust also means, that people rely more on words than on a written contract, as illustrated here:

Peter: *“In China the business is not built on the contract, the contract is only one of the papers to sit on the table; it doesn’t really have to follow*

*up,...”*

Mable: *“My boss always said, they never ask your contract, not like foreigners, ...if you ask them to sign, they will sign, but they will not initially ask your contract, ...this is not a must for them to do business ... ”*

Lucy: *“if you don’t know them (= business clients), if you don’t trust them, then you take a risk, because sometimes you cannot get your money back, they will just keep your payment, and you don’t know where they are, you can’t find them in China, they take the 30% down payment and keep the money, you never know,... it is better if you don’t know them to sign a contract, but still in the end, if they take the money and disappear, the contract is not much worth, what can you do, so it is better to use your relationship ...”*

Jack: *“ they always rely on face and word of mouth... the contract, they put it in the cupboard, they don’t look at it, the contract is a piece of paper, the word of mouth is more important than the contract, yes sometimes you don’t need to sign the contract, even if the contract is signed, the promise and trust is more important...”*

According to the respondents’ comments and experiences above, it is suggested that the element of trust is still an important part of business practices in China, as people rely on trust instead of written contracts. This confirms Tsang’s (1998) and Su *et al.*’s (2007) argument, who stated that trust sometimes replaces the legal contracts of business partners.

Trust also means, they prefer to go back to old business partners, once they have established a relationship.

Stanley: *“It is very obvious, here you have to deal with the old business partner,...because they are very cautious about new people,...it could be slightly more expensive, I would still deal with the old business people...the most important part is not one business, it’s the next business and the next business, so that’s the most important part, I could be losing money in the first business and you could be gaining, but because I think you are important, you are a big player in the industry, I’m willing to lose this one, to get the next one, and the next one, you forgive your short term gain for your long term...”*

Mable: *“if they (= business clients) find you’re knowledgeable and you can trust, then the business is very, very easy, they don’t care your product is more expensive, they don’t care, they will not shop around, for the Chinese people, their character is, if we trust you, then we will give all the business to you, even other business partner is cheaper, they will not give business to them...”*

Lilly: *“they will maybe not take the lowest price, but it is more important to have a good relationship, so even you offer a better price than anybody else, this won’t guarantee the business, because it is often based on relationship, and it is also based on the previous business you have done with them already, they know you and they trust you, so they prefer to go back to you...”*

Doreen: *“you also have to deliver the service, because you still need to be competitive, but they are willing to pay a bit more, because they trust you and that means they go back to the same company...”*

Trust is often related to the person, not to the company, as illustrated here:

Mable: *"I can see many Chinese people, when they have their own banker, when the banker changes the other bank, they will follow the banker..."*

Peter: *"... in China, they don't care about the company, if they leave the company, they will take away all the loyalty..."*

Based on the comments by Mable and Peter above, it is suggested that 'guanxi' appears to be a personal attribute as opposed to an organizational asset. These comments reflect the argument by Chen and Chen (2009), Lee and Anderson (2007) and Yeung and Tung (1996) who labeled 'guanxi' rather as a personal asset, rather than an organizational asset.

The long-term orientation is also related to giving favours:

Stanley: *"We do lot's of favours, I do you a favour, you don't have to return it today, you don't have to return it tomorrow, you return it one day, when ....it's like a credit, I have a credit, Ok you need a credit, I return you that credit..."*

Trust still seems to be an important element, in order to build and maintain 'guanxi'. Especially as the economy is still developing and the laws and the system are not fully enforced, people still tend to rely on trust. Trust has also been mentioned by many authors such as Buttery and Wong (1999), Fock and Woo (1998), Freeman and Lim (2008), Tsang (1998) and Yeung and Tung (1996) as one of their fundamental dimensions and characteristics of 'guanxi'. However according to the respondents' comments, which are based on their experiences and interpreted behaviour, it is suggested that the different elements of 'guanxi' are changing now, and take different

importance. The process of some elements has changed, while the practice and importance of some elements are decreasing. For example, the long term orientation is changing now for certain industries, as business is conducted much faster, the business orientation is sometimes much shorter. Reflecting the comments by Stanley related to favours, which do not need to be returned immediately but rather later when it is needed, this refers to the long term orientation of Chinese culture. Hofstede (2001) argued that Confucian Work Dynamism is related to the long term orientation of Chinese cultural values. While this may still be partly true, the long term orientation is changing, which will be reflected by the following comment by Peter.

Peter: *“If you have a one year deal or two year maximum, then you need to find another deal, China is easy to change, I mean the regulations, because now they only develop, they are still the developing country, even they join the WTO, there are a lot of restrictions from them,... but it depends on the nature of your business, it is just only for trading, not like the restaurant or hospitality, or the manufacturing, that needs a long time,...”*

This refers to the argument by Morgan and Hunt (1994) that ‘guanxi’ does not endure forever, but it changes with the time and effort spend. Further it may also depend on the nature of the job of the respondents as highlighted by Davies *et al.* (1995).

All respondents have mentioned that many changes have occurred recently, which affect the way business is conducted in China nowadays. While the business partners in China retain some of the traditional elements related to ‘guanxi’, the above elements are also underpinned by recent changes, which will be explored in the next part of this thesis.

## **Recent Changes Affecting Business Practices in China**

The recent changes are elaborated now in more detail, and it is explored how the changes affect the business practices, especially the way how to build and maintain the relationships in China. Later the perceived differences in relation to the government, company size, the new generation and the different cities in China are explored. The recent changes are mainly related to the economic changes. As China has opened up the economic market to the world (Chow, 2006) there are more foreign owned companies and foreign managers, who bring in international practices. Furthermore as there has been more competition and often companies are also judged on price and quality, the business is conducted much faster and more short term transactions need to be considered (Styles and Amber, 2003).

The relationship building seemed to take place much faster and people do not spend so much time in socializing any more, which is illustrated here:

Winnie:       *“They want to be more international, they want to follow the international standard, so they will not admit, that they will want to take money or take anything good from you...people have no time to waste in China, things are going so fast...”*

Mable:       *“When we socialize, sometimes before, sometimes after, as I said they go straight, quite straight now, they know our product may fit for their business, then they will meet us, but I think not like before many, many dinners and then after the dinner nothing happens, not like this, not like before,...when we socialize, I think they will treat this sort of function, as another opportunity to get their information, but not waste time, they will not waste their time...”*

Tom:         *“ Now some Chinese have more money than we, they buy the latest models, so they are smarter, faster, more direct, more like business*

*man,...it has changed, everything is much faster now and they are more efficient, you know, before like 10 years ago, it was very different, it takes a long time to deal with them, they talk a long time, it takes 4 – 5 years to start a business, and you have to talk to them over many dinners and luncheons, that was before, ...now the business is much faster, it takes shorter time and it is more efficient...”*

Sam: *“it’s different now, they have lot’s of competition, everything is more transparent, people know more, they can find out everything now, easily, so China tried to learn from us, they tried to learn from the success story of Hong Kong...before if you sell rubbish to them, China thinks it is like flowers, now we can’t sell rubbish to them, we can’t bluff them, they are much smarter now, they are like entrepreneurs and they learn very fast ...”*

The point raised by Tom that the concept of time has changed, raised an interesting issue. As mentioned previously, this is related to the concept of time by Trompenaars and Hampden-Turner (1993), who argued that Western cultures see time as something that may be wasted. As the business practices are changing and become faster and more Westernized, this may be due to the economic changes in China (Chow, 2006). Therefore some cultural elements remain, but in a different new interpreted way.

The changes are also related to trust as follows:

Tom: *“ I think, trust does not really matter, it is not so important, because China has been changing so fast and everything is still changing, now money is important, money talks, you know money and power is the motivating factor, trust is money, they are more money oriented, or it’s like if you have money then you have trust...”*

Mable: *“If you really can help them, they will trust you, if we are just talking ,but you are not really knowledgeable , they will not trust you, not like before, before in China, they just confined to China, they have no touch to the outside world, but now they go to European countries, so they know much more,...and also, they will check now, they know the answer, but they will ask us to test our knowledge, they are much more clever than before, but they still ask many other people, many of their friends to prove, to make sure the method is proper and good...”*

Doreen: *“everything is faster now, they move much faster, for example one factory I was dealing with, this factory does business with Canada, so they are more open, ...but they will not tell you everything, for example in a meeting when you discuss something with them, they will know, they understand what you are talking about, but they will test you, they will test to find out what you really know, so they pretend not to know and ask you to tell them, they will ask lot's of questions to test you...”*

While it has been mentioned before that trust is still important for certain elements of ‘guanxi’, it seemed from the interviews that the respondents prefer to deal with business partners they know and they may only give favours if they trust the person. The comments above showed that the element of trust may be changing, or it may be more difficult to win the trust of people nowadays. While the comments by Mable and Doreen also referred to the rapid economic growth in China, it is suggested that business people want to participate in the global market and get more familiar with other business practices and cultures, but at the same time they do not trust people so easily.

International business standards, and in particular those related to standardized procedures and systems also play a more important role now:



Lucy: *“ it is different now, you still need the relationship, but you also need to have a system, you need to build a proper system, for everybody to follow, this is important,...you still need the relationship, but they want to save the time now, you don't need to spend so much time like before, it is much faster...”*

The changes as illustrated above, are underpinning most of the elements of ‘guanxi’. It is still important to build and maintain the relationships, but people are more open, more knowledgeable and they like to follow more international standards. Also the part of building the relationship takes place much faster, as people are busy and do not want to waste their time. The comments above can be linked to the argument by Guthrie (1998) who mentioned that the ‘guanxi’ practice is declining, due to the competitive forces of the market and the improving legal and administrative system in China. Businesses in China have to make profit based on price, quality and service, and therefore have to follow more Western or International practices of conducting business. As the economy in China is changing and progressing rapidly, this also affects the practices of ‘guanxi’, which are conducted much faster and more efficient. However as Guthrie (1998) argued the entire social relationship and the practice of ‘guanxi’ is weakening, he did not define or elaborated on the elements or dimensions of ‘guanxi’. Based on the comments of the respondents above, it is possible to see how the elements change and which characteristics become less or more important. For example, while it is evident that business practices become faster and more international, some elements like giving favours are still important, however the process or practice has changed. While it is still the practice to give favours, the practice is conducted in a less direct and a less materialistic way, which is due to the circumstances surrounding the practice. Therefore it is necessary to consider the different elements of ‘guanxi’ in more detail and not just refer to it as a ‘fast declining practice’ as highlighted by Guthrie (1998). It is also interesting to consider the link and relationship of different practices, like giving favours is strongly linked to face and trust. The changing practices of ‘guanxi’ can also be related to the study by Wong

(1998) and Wong and Chan (1999), who highlighted the rapidly changing environment, which required a fast response due to the competitors. This may require 'guanxi' practices to change rapidly, which has been highlighted by the comments of the respondents above. The comments by the respondents also relate to the argument by Styles and Ambler (2003), who argued that relationships are still important for business success, but the price, quality and more short term transactional orientations need to be considered. Therefore the practice of 'guanxi' is still important, however the elements change or adapt to the rapid economic growth in China. As the practices and behaviour of Mainland Chinese executives change, therefore the Hong Kong executives also need to react and respond to these changes. For example favours and gifts cannot be given in a direct and materialist way anymore, therefore people have become more careful, indirect and creative in exchanging favours.

The next part explored certain practices and changes when building and maintaining the relationship with the government.

### **Business 'Guanxi' Experiences with the Government**

China has emerged as one of the dominant economies of the 21<sup>st</sup> century with many economic, social and legal reforms. Due to the acceptance in the WTO (Ahlstrom *et al.*, 2005), there are many new laws and regulations in China. Consequently the practices how to deal with the government officials are expected to be affected. All of the respondents have mentioned different experiences when dealing with government officials, compared to the business people.

The practices are illustrated as follows:

Vicky:           *“ The high level, the government boss, they don't like to contact you directly, that means you pass the small way, the small way is to ask the friends or some relatives to make the deal with you...if your factory need to export the goods to, you know outside China, so you do the*

*certificate and the people make the deal with you, like 100,000...if you don't have the certificate you can't, so you handle it or not, but it's not allowed, but people do it, the government of course,...they have some people to trust, also they don't deal with you directly, they still need the position..."*

Vicky mentioned that the government does not like to deal with foreigners, but they prefer to deal with local people. This is also confirmed by Lucy as follows:

Lucy: *"but the government, they do not like to talk to me, they do not like to deal with foreigners (local Hong Kong business people), they prefer to talk to the local people, so it is better if you know somebody in that village or province to help you, it is easier and faster if you use a middleman, a local person to talk to the government,... the government, they are much faster than before, before you have to queue up and wait many weeks and months sometimes for a license to get approved, ...now you can see or check the rules and regulations, they are more transparent than before, ...sometimes they even have more tighter regulations than Hong Kong, they are very strict with some rules, like for example the waste water, some regulations for the factories are more difficult to follow than in Hong Kong, they are getting more international with their laws and regulations, but in the end sometimes the regulations are too tight, and they can be negotiated, you can still change the rules, or they can interpret the laws differently..."*

Winnie: *"When the hotel is finished, we want to get the license to operate, right you need to get a fire license, you need to get all these licenses, this is the most difficult part, yeah, to deal with the government, that's when you entertain, it's not just money, ...it's very complicated, it's a web,*

*you have to know who and who and then, and if someone give the order, they can grant you the license like tomorrow, but if you don't have, they will just delay, delay, because to them there is no urgency..."*

Mike: *"but especially the government body is very difficult to deal with, because they issue the licenses, they hold the power, the government body is very powerful, ...the have lot's of grey areas, and for the grey areas each province can decide, they can make the decision, so you need to have the relationship with them, you need to have the relationship and connection for the grey areas..."*

According to Ahlstrom *et al.* (2005), the government may have changed as well, as China has implemented more international rules, regulations and laws. However it seems that it is still very difficult to deal with the government, as the relationships and connections still play a role. It may sometimes be even more important to have good relationships with the government people, as for example without the license the business cannot be operated. Therefore it is suggested that the relationship with government officials is still very important, but it is a very difficult and complex practice to deal with them. There is also limited research available and more studies would be necessary to explore this issue further. Su *et al.* (2007) proposed that companies in less developed areas are more controlled by the government authorities, therefore they need to cultivate more 'guanxi', than companies in more developed areas. Further Huang *et al.* (2010) suggested that different types of 'guanxi' are necessary to deal with local governments and the central Chinese government. Some studies available which could be compared to the government sector do focus on a comparison between the State Owned Enterprises (SOE) and Foreign Invested Enterprises (FIE). While there are some differences between the two sectors, the result by the following authors indicated that it is more important to have a good relationship in the private sector. For example Wood *et al.* (2002) argued that the use of 'guanxi' is

higher for FIE compared to SOE, whereas Xin and Pearce (1996) mentioned that private companies, are more dependent on 'guanxi' than SO or collective hybrid companies. The respondents mentioned that 'guanxi' with the government is not openly shown; therefore the argument by Xin and Pearce (1996) may be questionable. As SOE and government officials do not show 'guanxi' openly, but there are still practices happening, however they cannot be observed and compared to private enterprises. Similarly Huang (2008) argued that 'guanxi' networks still play a role for the state sector for hiring purposes, compared to outside practices. The study of this research does not focus on a comparison between the private and government sector; however the respondents revealed several differences in the practices used in both sectors. There are still many grey areas within the government sector, for which 'guanxi' practices are required. However according to the respondents' comments the government officials do not like to deal with the business executives directly or openly. This is similar to the result by Wood *et al.* (2002) where the leaders of SOE do not operate 'guanxi' in the open. Wood *et al.* conducted a field study in China by comparing the different practices of 'guanxi' between SOE and FIE. While the Chinese leaders of FIE highly emphasized the market opportunities through 'guanxi' over 80% of SOE reported that they should not practice 'guanxi' openly.

Based on the comment by Lucy, local Hong Kong people are seen as foreigners by the government officials. While in the business environment it was suggested by the respondents, that Hong Kong people are the link to business practices in China, it was seen as an advantage to be Hong Kong Chinese. However this does not apply to the practices with government officials, who prefer to deal with local people. This confirmed the comment by Wood *et al.* (2002), who argued that leaders of SOE (which may be similar to government officials) do not like to show 'guanxi' openly. Another interesting finding was revealed by Davies *et al.* (1995), that one of the benefits of 'guanxi' is the approval of applications to the provincial and central government. However as their study was conducted before 1995, there is no recent study or detailed research available to explore the recent practices within the government sector.

## Perceived Differences due to the New Generation

Most respondents have mentioned that according to their experiences the management practices are changing now, especially due to the ‘new generation’ in China. The respondents mentioned, that the ‘new generation’ of managers in China refers to younger people, who have experienced the economic development in the last 20 - 30 years since China opened the doors to the West. Some of the ‘new generation’ may also have studied overseas and have returned to China to work there. Faure and Fang (2008) and Ralston *et al.* (1999) argued that the new generation of managers in China are more individualistic and take more risks in the pursuit of money and profits. The comments by the respondents, that the ‘new generation’ adopts more international management practices, confirmed the argument by Faure and Fang (2008) and Ralston *et al.* (1999).

Although the respondents have mentioned different age groups while referring to the new generation; they all refer to similar characteristics of the new young managers. While some of them still have to respect the decisions of the old generation, they are all better educated, smarter, more flexible, more reasonable and more confident. While they adopt more Western and international management practices, it is to be seen if their practices referring to ‘guanxi’ will also change in future.

Peter: *“The new generation, they have the existing power, the authority, but they need to give face to the old generation, they respect their nod, they respect their recommendation, they respect them, ...so the existing generation is more like an operator, but the back side has the real power, what we call the real power, the old man still has the real power...but the new generation, their mind is different, they are quite healthy, not too much corruption, or something like that, ...they are more reasonable, less time and less money...”*

The comment by Peter above suggests that the decision by the old generation needs to be acknowledged, therefore hierarchy, face and respect are still important for the older generation. However the new generation of younger managers is more westernized, which is also shown by the comments by Winnie and Tom as follows:

Winnie: *“The newer generation is very good, that is something that I’m surprised honestly,... they are willing to learn, they are aggressive also to a certain extent, but they also create their own culture, they don’t feel inferior...but the newer generation I tell you, most of the young, I’m talking about the 20 and 30 years old, they are so confident of themselves, they are very quick in learning,...”*

Tom: *“You know a lot of people left China before, in 1989 when the Tiananmen Square massacre was in Beijing, those who were able to leave, those who had money and connections to go overseas they left during that time, the brain left China, most of them went to the States and studied there, or their children grew up there, now they come back to China, it’s the new managers ...and they have reverse ‘guanxi’, those people who studied together in the States or grew up together in the States, those people are the new clan, they are the network, they have the relationship with each other and help each other, we call them ‘hoi gwai’ the ‘sea turtles’, the turtles swimming back to China,.....this is the new network, the reverse network and the reverse ‘guanxi’, this happened in the last 5-6 years, a lot of them came back, these are the new managers now, the new generation, so everything is different...they are more Westernized, everything is faster, they cannot waste so much time, they are more efficient, because that’s business and there is lot’s of competition in China, they are also more flexible than before...there are also more private companies and those private*

*companies need those new managers, they are like entrepreneurs, they want to try new things, they are also more direct, they tell you what they want, because business is faster, but they are also more materialistic, because they grew up in the States, and now in China you can buy everything, they want everything and they want the best and the latest,...they are more like businessman..."*

Through conducting the interviews there has emerged a perception that the new generation is mainly located in cities, such as Beijing. However they may also be located in other cities or areas where business is conducted.

Lucy: *"I prefer to go to Beijing, it is better there, there are a lot of young business people now, or young managers, not very young, but the new generation, you know, they got educated overseas, they are foreign educated and they have returned to China now, you can see immediately they are different, they are well dressed, and they are also better educated, they are much smarter now, so I prefer to deal with them, they are also more honest, they don't use you or lie to you, they are more straightforward, they tell you honestly what they want, so the new generations is much better and easier to deal with..."*

Mike: *"Now the private business are run by young entrepreneurs, they have young managers, they are more open, they are sometimes educated abroad, so their mindset has changed, they are more open, this is the new generation in China, like a friend of mine, he is smart and has lot's of new ideas, very creative ideas, and he is also eager to try out new things, he will take a risk and try something out, this was not possible before, but now they are smarter..."*



According to the respondents' comments, the changes of this new generation appearing in management positions, is mainly related to the time frame of the last five to six years. Therefore there is limited research available in business practices used by this new generation. As Chow and Ng (2004) argued that similar age groups of respondents and associates develop closer relationships, this confirms the comment by Tom about the network of 'sea turtles'. This is an interesting point, that those people who had grown up together overseas develop their own networks in China. The Western culture in America may have forced them to develop their own networks overseas as they usually live and work together in Chinatowns. Now coming back to China, they still continue these networks by bringing back with them the international management practices and therefore the Western cultural influence. However whilst this point is out of the scope of this study, there is arguably scope for further research.

### **Perceived Differences due to the Geography in China (Beijing, Shanghai and Guangzhou)**

Most of the respondents interviewed for this research had business experiences in three major cities in China. They described their business experiences differently in different locations, therefore it is suggested that different geographical practices exist. These different business practices have implications for the practice of 'guanxi'. The key differences according to the respondents' experiences have been drawn out below. Each of these cities, Beijing, Shanghai and Guangzhou has been illustrated separately.

#### **Business experiences in Beijing**

Beijing is the capital of China and closest to the central government. According to the respondents experience the laws, regulations and rules are an important part in daily life. However, similar to the practices with the government people, the relationships still play a very important role in business practices, while dealing with the people in

Beijing. As Beijing is the capital of China, business practices are expected to be similar to the practices by the government officials

Winnie: *“In Beijing, because it is the capital, if you are dealing with government or any government related body, because they are more careful now in Beijing, they are very close to the government, so you still have a lot of ‘guanxi’, but that is where the ‘guanxi’ happens most, ...”*

James: *“In Beijing there is the central government, they have all the laws and regulations, so it is more difficult to deal with them, ...it gets very difficult, because you have to know the government officials...”*

Based on the comments by Winnie and James, the central government in Beijing has some influence on the business practices. It also seems difficult to do business in Beijing due to the political control, which is shown by the following comments.

Lilly: *“Beijing is more political, their business talk is also more political, because Beijing is the capital and also because they work for the government, so people are more careful...but I think ‘guanxi’ is more important there, you need to know the people in the government, otherwise it is too difficult...”*

Mike: *“In Beijing there is more control, it is more difficult there, maybe because they are close to the central government, people are more careful, because of the strict control...”*

Jack: *“in the North, in Beijing, it’s politics, if you do business you can’t do anything, except you have papers and relationships...‘guanxi’ is very important in the North, to get the paper work, to get the authorization*

*in Beijing... you don't do business in Beijing, you do politics..."*

The comments by the respondents are basically their perception and interpretation and may be stereotypes. However based on the comments, it is suggested that it is still important to build relationship in the three different cities. It appears that in Beijing, the 'guanxi' plays an important role, because some businesses are conducted with the government and it is important to have a good relationship with the government people. Although there are more laws and regulations in China and people are more careful to follow the rules, the practice of 'guanxi' is important as the rules can still be interpreted in different ways and often the government people hold the power over certain decisions.

#### **Business experiences in Shanghai**

Shanghai is a city with a lot of international influence, due to its central location and international businesses with major import and export functions. According to the respondents experience and interpretations, it is suggested that 'guanxi' still plays an important role, however its influence is less important due to the exposure of international practices.

Winnie:       *"Well, Shanghai, very business driven, so to them, I would say, they are more direct, so it is like Yes or No, or do you have a chance or you don't have a chance, they will tell you right away, I mean, not right away, but it is faster, because don't forget they have a lot of other competitors, more international companies, so their practice, their business practice is very similar to what we are used to Hong Kong or other parts of the world, because now you have also a lot of foreigners working in Shanghai, so they are also educating the local people, how to conduct business, ..."*

Andy:         *"I would say the people in Shanghai would be more money oriented,*

*because they are more exposed to the international world, they know how you can really grasp the opportunity to make yourself healthy, to give yourself a better career, and so that's why people in Shanghai change their jobs very quickly and say for the past two years or so, for people changing their job, they normally ask for a premium of at least 40% or so, 40% increase for changing a job..."*

Based on the comments by Winnie and Andy above, Shanghai is exposed to international companies, therefore more Western cultural influences affect the business practices. This is also confirmed by Lee and Anderson (2007), who suggested that Western influences affect 'guanxi'. For example people are more direct and money oriented. This can also be linked back to the proposed model of culture (Diagram 4, Chapter 2), where external forces affect the cultural values. Money seems to play a very important role in Shanghai, which is further reflected by the following comments.

Lucy: *"Beijing is better, because in Shanghai they are not so straight forward like in Beijing, they are more tricky, they may not tell you the truth directly, they are more difficult, tricky, you know, they also want face, they want to be told how good they are, and they also want money, they are more money oriented, most of the business and the stock market is in Shanghai and they use lot's of money, money talks ..."*

Lilly: *"Shanghai is very important for business, there is more business there and there is more business talk, they always look for chances to earn money, they always look for another chance or opportunity to earn money,...I think they only look for money, Shanghai is the major harbour in China to overseas, so they have more foreigners there and more contact to overseas and they look for business..."*

Mike: *“Shanghai is the place where the business is, most of the hospitality and catering industry is there, it is booming in China, but the hotel industry is controlled by the business men, they use this as a business media...when I went there to a restaurant, one beer is very expensive, they charge 70RMB for a bottle of beer in some restaurants, this is more expensive than Hong Kong, so there is lot’s of money pouring in, people spend a lot of money there, it’s also moving very fast, lot’s of business deals are happening there, but also lot’s of corruption, some people think they can buy everything, money talks and money can do a lot for them...”*

Jack: *“the central part like Shanghai and Suzhou, this is the financial centre of China,... Shanghai is a mixture of Hong Kong and Beijing, you still have to follow the rules, but the money talks, ... they are very aggressive to get business, they are even more aggressive than Hong Kong people... “*

It is suggested that in Shanghai there are a lot of rich business people and they may use more international business practices and look for more opportunities to make money, therefore the relationship has not been mentioned so much in connection with Shanghai as it seems, that the practices are often based on money.

### **Business experiences in Guangzhou (including the Pearl River Delta)**

The respondents revealed that according to their experience and interpretation ‘guanxi’ is still very important in Guangzhou and the PRD, due to its location far away from the capital and close to the ancestral provinces of Hong Kong people. As Hong Kong has shifted its manufacturing based industry mainly to the Pearl River Delta in China, it has become a major service provider to this area (Tuan and Ng, 2004). It is expected that the close proximity and relationship with Hong Kong plays an important

role for doing business. Therefore the business practices are based more on the old traditional network and relationship with family and clan members.

Winnie:       *“The ‘guanxi’ is definitely stronger in the southern part, because they get to come to Hong Kong easily, they know a lot of Hong Kong tycoons, or the business man, the key people, so if you are in that loop, if you are in their circle, then of course it is much easier, ...”*

Jack:           *“Guangzhou is historical, where it all started, the first people who went out this century, like in America during the gold rush, it’s all people from Guangzhou, all Cantonese people went there, ...they are more traditional, more relationships, the traditional entrepreneur, due to the manufacturing industry, more relationship building with the factories and all this, it’s a different ball game...”*

Winnie’s and Jack’s comments suggest that the social networks are stronger and more influential in the Southern part of China, which may be due to its close proximity to Hong Kong. This also suggests that ‘guanxi’ is connected to the hometown of the previous generation, which is further illustrated by Lucy’s comments below.

Lucy:           *“In Guangdong, this is my grandfathers’ hometown, it is important to know people there, if you have friends or family or business contact from your hometown this helps a lot, even if you don’t know them very well, it still helps, because if you come from the same hometown you have an automatic relationship with people, you are somehow automatically connected to them...but you have to be careful with them, if you don’t know them it is better to sign a contract, because they may take the money and disappear...”*

Mabel: *“the people in Guangzhou they just want to earn money, but not in a proper way, they just want to get advantages from us, but their mind is not simple,...I think they are more corrupt, for example for insurance, we cannot promote insurance directly in China, ...but the brokers in Guangzhou, they will open the public seminar, even they know they cannot do that, you know I’m so scared to do business with them , they just do the public seminar and talk about insurance directly, ...not like Beijing people and Shanghai people, they are more clever, they will still do that, but they will change the style, for example they hold the seminar to discuss the economy all over the world and then after the public seminar, that will not violate the law, and then they get the information of the client and then they will call the client and hold a very small meeting with the customer, and then talk about the investment and insurance...”*

James: *“In the South, like in Guangzhou or the area, like Zhongshan and Donggun, there are less restrictions, there it is easier, the people listen to you and you can create the relationship easier, because it’s the past village the old relationship, so it is important to know the local people, but they are more corrupt they are not so careful, they want crude gifts and money...”*

Based on the comments by Mabel and James, it is suggested that less restrictions, rules and regulations have penetrated the Southern part of China. Therefore more opportunities of accepting direct favours and gifts exist and a higher chance to get involved in corruption.

It appears that in Guangzhou, people still hold onto their traditional network of the old family and clan, the people do not use so many international practices and rely more

on the relationship with their network of family and friends. They also follow more the old traditional way of doing business, by accepting more direct favours or even getting involved in 'corrupt' ways of doing business. The relationship in the Southern part of China can be referred to the 'guanxi' type of blood base by Tsang (1998) and the ascribed type by Yeung and Tung (1996), where the relationship mainly involves family members, relatives, clan members and members of the ancestral village and province. Su *et al.* (2007) suggested that there are regional differences due to uneven distribution of economic development and market maturity. For example companies in less developed areas should rely more on 'guanxi' than companies in more developed areas, such as the coastal provinces, where the economy is more market driven and the government plays a diminishing role. This may partly confirm the respondents' comments that 'guanxi' is less important in modern cities such as Shanghai, however contrary to Su *et al.*'s (2007) comments, 'guanxi' is still necessary in other cities such as Beijing and Guangzhou.

There is limited research available on the business practice within different cities or regions in China. It is still important to build and maintain relationships in China, however there are various changes happening recently. These changes are mainly related to the changing economy, that business has to be conducted faster with more international practices. Other changes of practices are related to the dealings with the government people, the new generation and the different locations in China.

It is suggested that the external forces such as political and economic background affect the business practices in China. This can be linked to the proposed model of culture (Diagram 4, Chapter 2), where the external forces affect the cultural values. Further the comments above suggest that there are geographical differences in China. This has also been confirmed by Gerhart (2008), Fischer (2009) and Smith (2002), who argued that there are subcultures and different cultures within one country.

While 'guanxi' is still important, it is the degree or extent, how these practices are used,



that have changed. The changes can be seen in the changing importance of some elements related to 'guanxi'. For example while favours still play an important role, the kind of favours have changed, people use more indirect ways of giving favours, like overseas trips or sponsorships for children. Furthermore the favours are also more and more related to non-materialistic ways, like providing help, information or relationships, especially to overseas, which would not be available otherwise. Therefore Hong Kong executives also have to respond to these changes and react accordingly.

While the majority of respondents related the business success or opportunities to the influence of relationships and connections in China, there were a few respondents who thought differently. These respondents worked in large companies, with over 1,000 employees and suggested that the relationship and some elements like face, respect and trust are more universal concepts and should not exclusively apply to Chinese business practices. These comments have been explored in the next section.

### **Perceived Differences due to Company Size**

The practice of 'guanxi' appears to be more important in some kinds of organizations than in others. Large international organizations appear to have moved further away from the traditional ways of conducting business in China. Therefore 'guanxi' appears to be of less significance in this context. A few of the respondents worked in very large international companies. They all put less emphasize on the traditional Chinese way to conduct business. They often mentioned that their business practices and elements of success are more related to international practices and referred to relationships in business as a universal concept. These comments are illustrated as follows:

Patty: *"If you give them face or show respect, this is the same for everybody else, I think all over the world you have to show respect, this is a universal thing, I don't think it is something special to Chinese,*

*wherever you go or in any kind of business you need to show respect,...especially for the service industry, we should always respect our clients...”*

Sean: *“I think that applies to everywhere, even to Hong Kong, for us to have a long term work relationship, with any partners, trust and give face and you know, the very basic sort of respect and goodwill, we do that anyway with any company...once we identify a partner, that can work with us effectively, we look for a long term relationship, that’s it, because we are constantly developing...the way I work is very objective of course, if I choose one company over the others, it will be purely based on the qualifications, the criteria and all that, so everything to me is very clear, as far as our company is concerned, we are very objective...I think it’s to do with the culture of the company perhaps, more so than your boss, because your boss reacts in a way that the company culture is allowing him or her to react in such a way, ...I think a company’s culture is a universal situation, it’s defined by the companies management, the senior management...”*

Based on Sean’s comment, the company culture plays an important role and affects work practices.

Vincent: *“I think in any business world, relationship, networking, I just think we shouldn’t really say, that’s a very Chinese thing, and in Western business we don’t need relationship, we don’t need networking, I think that’s standard, ...I think in any part of the world, when you try to run a business, networking, relationship, face, I think, really it’s the same...”*

Vincent has been in the top management at a very large international company (over 6,000 staff) and has worked in many different countries including China. He argued

that Chinese culture does not influence the way business is conducted in China, rather the political and structural background of Communism influences the people. However he does not see any difference in doing business, as compared to any other country in the world, which has been shown by the following comments.

Vincent: *“I think because of the political background in China, there is no structure, there is no mid level in the company, there is a hidden structure and that hidden structure could be someone, who has been at that company very long, that person has helped the owner for the last 20 years, he is just one of his right hand man, but there is no actual title, he is just the guy who is always with the boss, ...I think this is because of the last 30, 40 years in the name of Communism...”*

*“ I think the legal structure is there, but it’s there to be broken, we always say, that in China, they have the most complicated legal structure, that you can ever imagine, and because they are so complicated, that means there are a lot of grey areas, and because there are a lot of grey areas, the people factor comes in, and so and so is in the position to say this is OK... I think if you go to any communist country, who has shut their door to the outside world, I think you will find exactly the same thing, because when I was in the Eastern Block before...I found it was difficult to deal with these people as well...”*

*“ I think the people factor is everywhere, I’m still keeping relationship with my previous company and colleagues, ...just because we have been keeping in touch, is that become, a very unique business way of doing business, I don’t think so, I think this is just normal...”*

*“As far as a little bit something under the table, that is an ethical thing, I have met Chinese, who say Yes, I have met Chinese, who say No; I*

*have met Europeans and Indians, who say Yes, I have met Europeans and Indians, who say No...I have deliberately, personally had to deliver a Rolex to one of my clients on behalf of my boss, before, in the States...”*

*“ I think taking your future customer out for lunch or excepting an invitation to go for lunch with your potential customer is hospitality, more than anything else...”*

Vincent's comments above suggest that the external forces such as political and structural background influence the work practices and therefore the cultural values.

As the respondents of these large companies above were mainly dealing with more international companies in China, the way the business is conducted is more according to international standards and the Chinese way of doing business is less or not relevant. Therefore it is suggested that 'guanxi' practice is decreasing with the increasing company size, and it may be more important for small and medium size companies to use 'guanxi' practices. Yeung and Tung's (1996) research suggested that small and medium size firms place more emphasize on 'guanxi' than larger companies. Further Su *et al.* (2007) suggested that large multinational companies downplay 'guanxi' due to their resources advantage, while 'guanxi' is a key factor to achieve success for most small and medium sized foreign companies. In echoing this view Huang *et al.* (2010) argued that especially small and medium enterprises require 'guanxi' for better survival chances. Guthrie's (1998) research also revealed that large scale industrial organizations are officially not engaged in 'guanxi' practices, as they are much more closely monitored by the state. Some of the respondents of Guthrie's qualitative research in China, also indicated that 'guanxi' practices are obsolete and that relationships and connections are not a typical Chinese thing, but rather a universal practice. This is similar to the above respondents' comments, however Guthrie did not relate these comments to the background of his respondents or the company size.

Therefore 'guanxi' may depend on many different variables, which has been explained by the comments of the respondents above. According to White (2002) the typical Chinese values such as 'guanxi', face and Confucian values may play a more universal role in large international companies, or there may even be some type of 'reverse exporting' of Chinese values and concepts to Western countries and management practices. Overall the practices depend on the background (company size) of the respondents, the type of the business to be dealt with (industry or government), the type of generation and geographical location (Beijing, Shanghai or Guangzhou) within China. All these variables are underpinned by recent changes, mainly due to the opening of China's economy and rapid growth.

## **Conclusion**

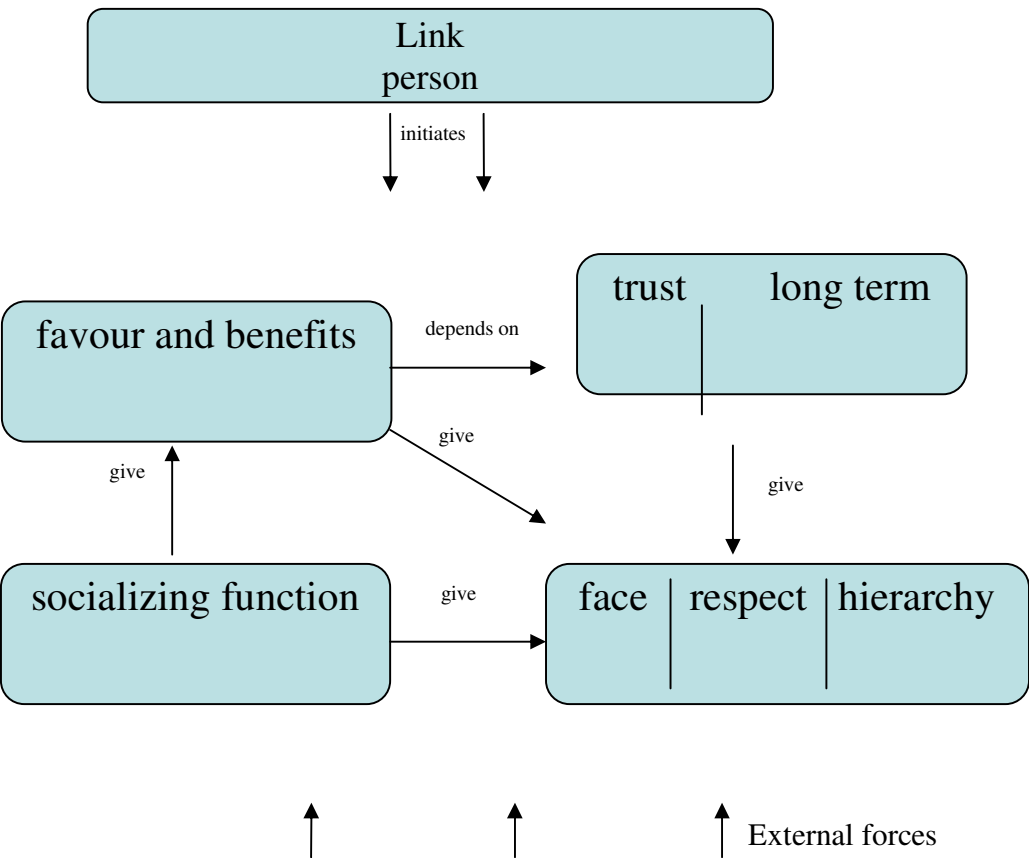
It is suggested that 'guanxi' can still be defined as one of the key elements in doing business in China. Through analyzing and interpreting the comments of the respondents in this qualitative study various elements and characteristics could be identified and linked to the practice of 'guanxi'. These elements could be seen as the basic building blocks of 'guanxi', however there are various changes underpinning the elements involved. Central to this study has been the changing nature of 'guanxi'. However this study has also revealed a complex picture how the various elements of 'guanxi' are interrelated as well as the different experiences within different organizations and locations within China. Whilst it is possible to see some of the basic elements involved like the face, favours and trust, these elements are used in a different way and sometimes in a changing and declining matter. Therefore it is suggested that the practice of 'guanxi' is still used, however the process has changed, as well as the extent of applying the elements has changed. Another important finding is the interlink and relationship between the various elements, as some of the building blocks depend on each other, for example some of the favours depend on trust. Finally there have emerged some additional major themes, which were not expected at the beginning of this study. In order to conclude this chapter the key concepts and findings

are summarized as follows:

**Building blocks of ‘guanxi’**

This study started with the major aim and theme of how to establish business relationships with Mainland Chinese executives and how the traditional concept of ‘guanxi’ works in modern day China. Whilst considering the practices how ‘guanxi’ is built and maintained, the recent changes underpin every element involved. Diagram 6 shows the building blocks of ‘guanxi’. Whilst consideration should be given to the changes of each element, it is also necessary to inter-link the elements with each other as follows.

Diagram 7: Interlink of the Building Blocks of ‘Guanxi’ Practices



Still important =	face
Common =	respect
Changing =	favours and benefits, trust
Decreasing =	socializing function, hierarchy, long term

Firstly the link person is an important element, either as the key person to influence the boss, or as the middleperson to initiate the contact between two partners. Here the link person serves two different purposes, however writers such as Yeung and Tung (1996) only acknowledged the purpose of initiating the relationship.

Secondly the socializing aspect of building and maintaining relationships still takes place, however in a changing manner, where less time is spent in going out for lunch and dinner. Often the business part takes priority and is conducted first, whereas the social function follows later and is used to maintain the relationships. Overall the socializing part in connection to doing business shows a decreasing trend. Further the social function is connected to the element of face and respect, as expensive luncheons, dinners and the drinking habits, give face and respect to the business partners. Further elaborative luncheons and dinners can be part of the favours given, but this is happening not so often anymore.

Thirdly the favours and benefits involved in establishing and maintaining 'guanxi' are still important, however they take a changing nature as the favours are more indirect and less materialistic. Further the business partners also have to be more careful in accepting favours, as they do not want to be associated with corruptions and bribery. This may be related to the establishment of more international rules and laws, as previously corruption was linked to a weak institutional and legal system (Lee and Ellis, 2000). Accepting favours nowadays is also linked to trust, as people have to be more careful, they will only accept favours if they trust the person. Further the practice of giving high valued favours also increases the issue of face and respect.

The fourth element relates to face, respect and hierarchy, which are interlinked with each other. Giving face to the business partners shows respect at the same time and also highlights the hierarchical standing of the business partner. While the issue of face is still important, it is a very typical Chinese aspect of dealing with people. The aspect of respect is not seen as so important and may be rather a common or universal aspect, whereas hierarchy is only important for the old generation and plays a lower part for the younger managers.

The fifth element of 'guanxi' is trust and long term orientation. While trust is still important, it also changes in some parts of China (Shanghai), where money plays an increasing importance. The issue of long term orientation is taking a decreasing role in some areas, as business is conducted much faster. Furthermore this element is related to face and respect. If you trust somebody and rely more on words than a contract, or go back to old business partners instead of new ones, that means also that you give them face. The long term orientation of retaining the relationship, even if the contract is terminated, preserves the face of the business partner.

It is interesting how all these building blocks of 'guanxi' are interlinked with each other, which is often ignored by authors such as Fock and Woo (1998). Yeung and Tung (1996) argued that all the elements and strategies need to be interlinked and none of the strategies alone can build and maintain strong relationships. Unfortunately they have not described the relationship between the elements, instead they have given equal importance to the strategies. Further the above authors also have not included face, which seems to be a very important element. While Buttery and Wong (1999) came up with a very complicated integrated model and map how to build 'guanxi', they have not indicated how the different key attributes affect each other.

Finally the external forces such as economic growth affect the cultural values and elements of 'guanxi'. The interlink of building blocks of 'guanxi' (Diagram 7) can be



compared to the proposed model of culture (Diagram 4, Chapter 2), where the cultural values are also interlinked with each other and are affected by external forces.

### **Recent changes of ‘guanxi’ practices and experiences**

According to the comments and experiences by the respondents it is suggested that most of the building blocks are underpinned by recent changes. While business is conducted much faster and more international rules and standards are used, most elements are changing. While favours and benefits have changed to become less direct and less materialistic, the element of trust has also changed in some areas in China. The elements of the socializing function, the long term orientation and the hierarchy take a decreasing role, while respect is rather seen as a universal aspect. The only element which is still seen very important is face. The issue of face may be a typical Chinese core value or it is part of the Chinese protocol, which cannot and will not change. People still hold onto some typical Chinese manners, which have also been highlighted by the respondents’ comments. For example the way to present gifts, the Chinese festivals, the seating plan and order in meetings and luncheons have not changed. These Chinese manners are all related to giving face and may be part of some deep rooted values. While people change some of their behaviour, they conduct business in a much faster and more international way. They adapt to international practices, which are necessary to do business. For example it is necessary to change the favours to a less direct way, it is also necessary to spend less time in socializing, in order to conduct business in a more modern, efficient and time saving way. Therefore Chinese people change some of their behaviour, in order to make money, but they still hold on some of their core values or protocol. These core values or the protocol of giving face does not hinder the modern conduct of business, but it supplements the business practices. The way of conducting business becomes more international, but with a Chinese twist.

While the business practices become more international, more modern and faster, the

new generation of managers may also conduct their business increasingly on the internet. This involves social networks through linking websites (King *et al.*, 2009) as well as extending the network on a global basis (Hammond and Glenn, 2004).

It is suggested that the businesses are conducted more according to international standards in China, due to the recent economic changes and rapid industrial growth. However due to the fast changing economy, they are also a lot of uncertainties, which brings advantages for 'guanxi' based practices. According to Lovett *et al.* (1999) the economic situation of progress and uncertainty provides an ideal scenario for 'guanxi' practices. This scenario describes the modern world situation, where economic and technological progress is linked with uncertainties. This enables 'guanxi' practices to flourish, because people need to rely more on relationships and trust and less on legal systems. Further Huang *et al.* (2010) and Xin and Pearce (1996) also suggested that 'guanxi' is a response to the inefficient communist bureaucracy and a substitute for the lacking legal system, whereas Fan (2002) and Lee and Ellis (2000) argued that business 'guanxi' is a product of the current political and socio economic system. This is also in agreement with Guthrie's (1998) argument, that 'guanxi' is declining, due to the changing economic forces. While the arguments of the above authors are relevant, they may have missed the integration of various 'guanxi' elements and the complex and situation specific nature of 'guanxi'. This is a very important finding. As the findings have revealed 'guanxi' practices also depend on many variables, as the location, the generation and the company size. This has also been confirmed by Leung and Wong (2001), and Man and Cheng (1996), who mentioned that 'guanxi' depends on the person, situation and location. Further Fock and Woo (1998) mentioned that 'guanxi' also depends on the company size, while Chow and Ng's (2004) quantitative research highlighted some differences according to age and gender. While the above authors have highlighted the situation specific nature of 'guanxi', they have not elaborated on the details. Furthermore as the economy and the 'guanxi' practices are changing rapidly, this research highlights the most recent practices and underlying changes.

### **Perceived differences within the government sector**

Overall the study has also revealed some additional themes, which were not expected initially. Firstly the ‘guanxi’ practices within the government sector are perceived to be still important, although the government has implemented new rules and laws. Especially as there are a lot of grey areas, ‘guanxi’ practices are still used as temporary measures to overcome the weaknesses within the government and legal sector. If this is true, then the ‘guanxi’ practices should decline in the government sector in future, when the new rules and laws have been stabilized and enforced in the entire country.

### **Perceived differences due to the new generation**

Furthermore another theme has emerged. Based on the experiences of respondents, it is suggested that ‘guanxi’ practices take a more modern, flexible and international approach with the new generation of young and often foreign educated managers. It has to be seen how far this new generation takes over the business practices and influence the way business is conducted in China.

### **Perceived differences due to locations**

According to the respondents’ comments and perceptions of experiences and behaviour, it is suggested that different business practices are found in different locations in China. While Beijing is the capital and very close to the government it appears that it is still important to build relationships with the government people as they still hold the power over certain decisions. This confirms the argument by Hutchings and Weir (2006), that ‘guanxi’ is necessary to get things done in a highly political and bureaucratic system. In Shanghai, a lot of international businesses are located, therefore it is suggested that more Western practices are adopted, which are often based on money. Therefore the ‘guanxi’ practices take a less important role. Whereas in the Southern part of China around Guangzhou, it seems that the business is

still based on more traditional networks, where the relationship between family and clan members still play an important part.

### **Perceived differences due to company size**

Finally there are some very large companies, which use more international practices and rely less on 'guanxi' practices. These international companies conduct business all over the world and refer to their business practices as universal, which is not related to Chinese culture or any other national background. Therefore it is suggested that the larger the company is and the more international practices are used, the less importance is placed on 'guanxi' practices. This results in 'guanxi' being still important mainly for small and medium size companies.

### **Gender issues**

Some of the comments by the respondents raised interesting questions related to gender. During the socializing events, like drinking wine and playing golf, women are usually not included. This may disadvantage women during business practices in China. However based on the interviews with female respondents, they did not feel disadvantaged during these activities. Further research is suggested to clarify potential gender issues.

### **Corruption avoidance**

According to the respondents' comments and experiences, it is suggested that the potential risk and danger of 'guanxi' is diminishing, as business people are more careful. They do not want to be perceived in taking part in bribery and corruption. This could be due to the legal system getting stricter and stronger and people follow more international standards and practices. Further as the favours and benefits are less direct and less materialistic, the potential risks are decreasing.

Overall there is evidence that ‘guanxi’ is still important, however the process is changing. Therefore ‘guanxi’ in business may not be a result of culture alone, but rather a result of historical and structural (Hwang 1987; Tsang, 1998), institutionally (Guthrie 1998) and political related (Redding, 1993) changes. ‘Guanxi’ can be seen as a web of interlinked elements, which are affected by external forces.

In the next chapter, the results and findings will be linked to the bigger picture of Chinese culture, national culture and the mechanism and reasons of cultural change.

## **Chapter 6**

### **Conclusion and Summary**

#### **Summary of Findings**

There has been undoubtedly a rapid economic growth in China over the last few decades, which can be linked to the Open Door Policy by the Chinese government (Chow, 2006). Due to this policy there has been major growth in international companies investing in China (Chan and Mok, 2001), resulting in many opportunities and challenges for the international as well as local managers. While many of the Western management practices adopted, have been seen as necessary to survive in the modern business world, Chinese executives still hold onto some of their traditional beliefs and values (Fang *et al.*, 2008; Pang *et al.*, 1998; Slough and Miesing, 2003). Therefore the aim of this study was to explore the influence of Chinese culture on business practices in China, focusing specifically on ‘guanxi’, the building of relationships and connections. The objectives have been to explore how to establish the business relationship with Mainland Chinese, which was investigated and analyzed through the experience of Hong Kong executives conducting business in China.

The findings of this research have been summarized as follows:

#### **Experiences of ‘guanxi’ and changes**

The major finding relates to the overall experiences of ‘guanxi’ for business and its associated recent changes. The sub-themes are related to the integrated nature of building blocks of ‘guanxi’ and the perceived differences due to the government practices, emergence of the new generation, company size and geography in China. This study suggests that the elements of ‘guanxi’ are fundamentally related to each other and the elements have changed recently. For example while some elements like social functions, hierarchy and long term orientation are declining, other elements like

face have remained unchanged. Further it is suggested that 'guanxi' is less important for large organizations and the new generation of Western influenced managers in China.

### **Background of 'guanxi'**

It is suggested that the background of 'guanxi' can be related to the reasons for the changing nature of 'guanxi'. The various changes can mainly be attributed to the historical and structural (Hwang, 1987; Tsang, 1998), institutional (Guthrie, 1998) and economic (Redding, 1993) changes in China. This issue has often been missing in the literature about 'guanxi', as many authors (e.g. Fock and Woo, 1998; Yeung and Tung, 1996) relate 'guanxi' to Confucianism. Therefore they may have overlooked the complex issues of 'guanxi', such as economic changes and different situations, which affect the business practices.

### **Cultural change**

The final findings are related to the bigger picture of the mechanism of culture and cultural change in general. Due to globalization and economic growth in China, cultural values experience pressure and change. For example the traditional concept of 'guanxi' may not work anymore in the same way in modern day China. This study has shown that elements such as relationship by status and giving face and favours are clearly interlinked with each other. These elements have been presented as opposite poles in the dimension of Confucian Dynamism by Hofstede. The opposite values and dimensions presented in cultural models such as Hall, Hofstede and Trompenaars and Hampden-Turner often take a Western view of opposite related and more stable values. It is suggested that values, at least for the Chinese business executives take a more interrelated and changing nature due to external forces.

The key findings will be addressed in the next section, followed by the possible limitations and recommendations for further research. Then the managerial implications and recommendations and the contribution of this research will be

highlighted.

### **Experience of ‘guanxi’ and changes**

It is suggested that the practices of ‘guanxi’ for businesses in China are still important and relevant; however various changes have emerged recently. These changes can be linked to two areas of contribution. Firstly various elements and building blocks of ‘guanxi’ have been identified through this study. Based on the respondents experience, comments and perceptions throughout the interviews, these elements show different importance for the conduct of businesses in China. While some elements including favours, benefits and trust have changed their relevance and importance, other elements like socializing, hierarchy and long term orientation in a business context have decreased in importance. Another interesting finding is that these elements are interrelated with each other. Previous studies have identified various elements of ‘guanxi’ (e.g. Fock and Woo, 1998; Tsang, 1998), where the elements are treated as separate items. The findings of this study build on existing work and demonstrate that these are not discrete elements but are fundamentally related to each other. For example, trust must be established first before high valued favours can be accepted. Therefore it is suggested that an interrelationship and dependence of the various elements exist.

Another area of contribution is related to the additional findings of this study, which suggests different experiences of ‘guanxi’ due to the size of the organization, the emergence of the new generation, as well as perceived differences in the government sector and possible geographical issues.

Some differences have been identified due to the size of the organization and the emergence of the new generation. This could be linked to the economic growth and embracement of globalization in China, as well as the need for China to be seen free from bribery and corruption. Therefore many organizations have adopted international practices. This is particularly evident in large organizations. The respondents have



revealed that the practice of 'guanxi' in large organizations is less or not relevant as they adopt more international practices. This point has been confirmed by Huang *et al.* (2010), Su *et al.* (2007) and Yeung and Tung (1996) who argued that small and medium firms pay more emphasis on 'guanxi' than large organizations. Further Guthrie (1998) revealed that large scale industrial organizations are less likely to be engaged in 'guanxi'. Further Wright *et al.* (2002) argued that 'guanxi' may weaken with outside exposure and the adoption of more international practices by companies. Further Venter (2003) argued that large companies in China, especially those over 500 employees, use more modern management practices due to the pressure of global competition. In order to build on existing work this study suggests that 'guanxi' practices are less relevant in large scale companies. While most of the above authors have not identified the specific company size, this study revealed that especially large companies with over 1,000 employees less likely rely on the practices of 'guanxi'.

There is also the emergence of a new generation of Western influenced managers, who have tight deadlines and less time to practice the traditional methods of 'guanxi'. It is possible therefore to suggest that 'guanxi' is not important anymore for at least some of the large organizations, as well as companies run by the new generation. The influence of the new generation has been confirmed by Slough and Miesing (2003), who argued that the use of more Western management practices, especially imported by the new generation who studied overseas, encourages change. What is unclear from this study is if this trend of international practices can cascade into all types of businesses?

Further as the new generation of managers will bring in more Western management techniques and information technology, the traditional concept of 'guanxi' may increasingly take place on the internet. For example King *et al.* (2009) argued that 'guanxi' on the Chinese web happens through mutual linking of websites, whereas Hammond and Glenn (2004) suggested that network societies will become more globalized.

It is suggested that different practices of 'guanxi' appear within the government sector. These different experiences of 'guanxi' may be related to the fact that China is in a transitional stage. This research has shown that there are grey areas particularly in the government sector. Therefore if the transitional stage progresses in China, these grey areas are expected to be minimized and the practices of 'guanxi' could further decline, especially in the government sector. Previous studies by Guthrie (1998) identified that firms directly under the jurisdiction of the government are less likely using 'guanxi', because the government tends to favour these firms. Further Wood *et al.* (2002) argued that SOEs do not like to show 'guanxi' openly. This study, while building on existing work suggested that while government officials do not show 'guanxi' openly, they are still using this practice. Whilst Guthrie (1998) argued generally that the practices of 'guanxi' diminish, this study argued that only certain elements of 'guanxi' have declined. Based on the respondents' comments it is suggested that only the element of socializing, hierarchy and the long term orientation are diminishing, while the concept of face is still important. Further the element of favours and benefits appear to change by taking a less direct and less materialistic role. This may be due to economic changes and the adoption of more international standards and rules and regulations.

In previous studies, some authors (e.g. Baskerville, 2003; O'Leavy and Levinson, 1991) argued that it is incorrect to generalize a nation with a single country, as there are several regions and ethnic groups within one country. Further Fan (2000) also argued that there are different values according to the regions in China, for example the people in the North show different cultural values compared to the South. Some of the issues that emerged from the interviews suggest a geographical dimension to 'guanxi' with different experiences in Beijing, Shanghai and Guangzhou. Therefore the practices of 'guanxi' should not be generalized across China. As this study has mainly revealed the practices and their perceived differences in three major cities, it is suggested that there are geographical and local sub-cultural issues which affect the operation of businesses. This raises the question of possible variation in the operation of 'guanxi'. Here further research is suggested, especially in other cities in China and

rural areas.

It is interesting that the practices of 'guanxi' are all interrelated with the various elements, changes and differences as mentioned above. This is important because a single element, like providing favours cannot establish a business relationship. It is necessary to consider all the elements involved, the relationship between the elements and the recent changes.

### **Background of 'guanxi'**

It was important to study the background of 'guanxi', because it can explain the changing nature of 'guanxi'. Whilst the historical background of China with its dynasties and the Communist party may have been responsible for the collective orientation and respect for authority and hierarchy in Chinese people, arguably this has begun to change. The respondents of this study indicated, that elements such as respect appear to be a common and universal practice and that hierarchical thinking is not taken as serious as in previous generations. Therefore it is suggested that these elements are linked to the historical background are declining and take less importance in modern day Chinese businesses.

Furthermore the traditional values based on the social background and Confucianism may also be changing. While Confucianism has highlighted the importance of respect, trust and the hierarchy of the relationships (Child and Warner, 2003), this study has revealed that elements in a business context have changed their relevance. For example in business hierarchy, status and the associated hierarchical structures have decreased its importance. However these elements related to a family context may still be unchanged. As family based businesses have been excluded in this study, further research is suggested here. Fan (2002) argued that the family type 'guanxi' is linked to Confucianism. In order to build on existing work, this study revealed that the social relationships as defined by Confucius may still be prevalent in the Southern part of China, where the relationships are more based on family and clan members. Therefore

only 'guanxi' based family relationships may have its background in Confucianism.

Furthermore the work structure of the 'danwei' has also contributed some workplace values of trust, respect, and hierarchy, to the practices of 'guanxi'. Linked to the structure of the workplace and its practices is the political system of Communism. Previously people were controlled by the tight rules and regulations of the state, which made it necessary to use more relationships to get things done. Therefore it is suggested that the political background and work place structure has contributed to the 'guanxi' practices.

Overall 'guanxi' is not only a result of cultural background, like Confucianism as argued by Yeung and Tung (1996), but the historical, structural and political background has contributed to the practices of 'guanxi'. However this qualitative study has revealed that the rapid economic growth in China has also contributed to the changing nature of 'guanxi'. The majority of participants stated that the business practices are much faster and people adopt more international practices. Therefore it is suggested that the elements of 'guanxi' have been influenced by the economic background. As the economy grows and changes rapidly, people need to adapt to these changes and conduct business much faster. However as there are still uncertainties within the economic and political climate, people still hold onto some of their values and relationships. This has been confirmed by Lovett *et al.* (1999) who argued that economic progress and uncertainty provides an ideal scenario for the practice of 'guanxi'. As the complex background has influenced 'guanxi' in the past, other forces, like institutional and political structures could ultimately influence and change 'guanxi' in future. The background of 'guanxi' can also be related to the proposed model of culture (Diagram 4, Chapter 2), where the external forces affect the cultural values.

### **Cultural change**

Through the economic shift from a socialist to a more market led economy (Cheung,

2005), China has adopted a number of international management practices. This shift has arguably resulted in the traditional work values to change into more modern day Chinese business practices. One of the most popular and widely used classifications of cultural dimensions has been that of Hofstede (1980). Hofstede included in a study with the Chinese Culture Connection Group (CCC Group, 1987), the dimension of Confucian Work Dynamism. This dimension categorizes the elements into two distinct groupings: long term pole and short term pole. The long term pole dimension relates to factors such as persistence, relationship by status, thrift, sense of shame. In contrast the short term pole includes stability, face, tradition, reciprocation of favours and gifts. It is suggested that the values on Hofstede's orientation pole, should be interrelated and not opposite poles. This study has revealed that various elements of 'guanxi' are interrelated and depend on each other, for example favours depend on trust. This is contrary to Hofstede's study, where the elements were clearly placed on a horizontal pole, on opposite sides and independent of each other. Hofstede has also highlighted the more stable nature of culture, which is contrary to the findings of this study. This study revealed that the elements of 'guanxi' are changing. For example the long term orientation is declining due to the need to conduct business much faster. Therefore it could be argued from the findings in this study that Hofstede's result may not be applicable anymore in today's fast changing business world. Hofstede identified face and favours and gifts as elements of culture located on the short term pole dimension. However the respondents of this study have mentioned how the element of favours and gifts is changing. Therefore it is suggested that if the elements of culture change, then the cultural values and beliefs of people change as well. This change has mainly been influenced by economic forces. It has been argued by Erez and Gati (2004), Leung *et al.* (2005) and Matsumoto and Yoo (2006) that globalization will affect culture and its' dimensions. This study suggests that the dimensions of power distance, individualism/collectivism and Confucian Dynamism has been affected by the rapid economic growth in China. For example people show less respect to hierarchy and prefer to conduct business in a much faster way by reducing the time to socialize in some areas in China. As shown in this study the cultural elements are

interrelated, therefore the cultural dimensions should also be interrelated. For example as the power distance in China decreases, it is expected that the dimension of individuality may increase. For example in Shanghai people show less respect for their boss and try to gain individual benefits through quick promotion or business deals.

As the economic growth in China will continue, it is suggested that further changes of cultural values may be expected. However some values or elements, such as face are still important for Chinese people as it will contribute to the business practices. Therefore it is suggested that this element will continue to play an important role in China. Whereas the other elements, like trust and the long term orientation are in conflict with modern business practices, therefore these elements are expected to further decline.

It appears that the Chinese business executive take a pragmatic view, by keeping some values which are useful, while neglecting other values which are less useful in the modern business world, therefore they suit their practices according to the situation. This study has revealed that the practices of 'guanxi' are situation specific. Therefore it is suggested that cultural values are also situation specific and are expected to change due to external forces, like economic growth.

While this study suggests an integrated way of cultural elements, this can be linked to the bigger picture of culture. Most authors on cultural dimensions like Hall (1976), Hofstede (2001), House *et al.* (2004), Schwartz (1999) and Trompenaars and Hampden-Turner (1997) present their cultural dimensions on opposite poles. This may present a rather Western way of thinking. This study revealed that elements such as relationship by status and face, which are on opposite poles (Hofstede), are actually related and interlinked. Therefore it is suggested that the Chinese values could include and combine opposite values. For example while Chinese business executives show collective behaviour, at the same time they also show more individualistic traits like money oriented individual goals. This has been confirmed by Faure and Fang (2008)

who suggested that Chinese values can combine apparent opposite and contrasting elements like the concept of Yin and Yang. Therefore it is an important Chinese characteristic to manage and combine opposite values, which is contrary to the more Western bi-polar way of thinking.

It is interesting that authors like Hofstede (1991, 2001), Bond (1991), Pang *et al.* (1998) and Yau (1994) refer to the Chinese values more related to Confucius and therefore also to a more stable nature. As the Chinese values related to Confucius have survived over 2 000 years, these authors may assume the stable nature of values. However, authors such as Trompenaars and Hampden-Turner (1993) and Child and Warner (2003) suggest that the Chinese values are changing or being reinterpreted according to time and circumstances. Child and Warner (2003), Kezar (2004) and Leung *et al.* (2005) argued that some values are changing or becoming more globalized, whereas others are maintained. This study builds onto existing work by suggesting that the practices of 'guanxi' do change differently, while some elements are declining including social function, hierarchy, others are changing their significance like the usage of favours, whilst elements like face still remain contextually unchanged.

Overall this study suggests that the building blocks of 'guanxi' are a result of historical and social background, as well as the result of the structural, institutional, political and economic changes.

Further the study of 'guanxi' can be linked to the proposed model of culture (Diagram 4, Chapter 2). Similar to this model the elements of 'guanxi' are interlinked with each other and the external forces affect the elements. Further the practice of 'guanxi' is changing and evolving similar to the web of cultural values.

Hofstede (1980) argued that convergence of organizations will never occur, while Elias (1978) believed in the potential of a 'single global human society'. Whilst these authors took a relatively extreme view, Hui and Graen (1997) considered both views

by arguing that ‘guanxi’ has some universal applications, which are relevant for the management of interpersonal relationships globally, and at the same time ‘guanxi’ has some culturally unique features which are important for businesses in China. The findings of this study suggest that some elements of ‘guanxi’ are seen as being universal such as respect, whilst other elements are typical Chinese like that of face. Overall this study found that the business practices adopted by the Chinese executives are becoming more international. However there is evidence to suggest that businesses still retain some typical Chinese elements such as face as a means to enhance their business practices. Building onto existing work, this study suggests that convergence can occur while divergence still remains. This can be seen in Chinese companies adopting more international management practices and following international rules and regulations, while at the same time keeping some typical Chinese cultural elements such as face.

### **Limitations of this Research**

Like any other study, this study is not free from limitations. The data generated was acquired from local business executives and managers in Hong Kong. Western and foreign managers were excluded from this study. Therefore this study mainly referred to the experiences and the interpretation of Hong Kong executives. Of those managers interviewed the majority had experience of conducting business in Beijing, Shanghai and Guangzhou, and not with other cities or regions. Understandably the experiences of dealing with organizations in these major cities may differ from Mainland China *per se*. Therefore the result of this study cannot be generalized to China as a country, however it can be considered for international companies conducting business in these major cities in China.

Further this study excluded respondents from small family owned businesses. Therefore the importance of business practices of ‘guanxi’ in family businesses was not studied. As Yan and Sorenson (2006) have argued that the majority of small



businesses are family and blood related, their practices differ from a business and commercial context (Chen and Chen, 2009). The reason for excluding family based companies was made in order to cover the bigger picture of commercial practices in China.

### **Recommendation for Further Research**

This current research has added to the existing academic debate surrounding the practice of 'guanxi'; however there are areas that warrant future research. With China rapidly changing and embracing globalization, there is a need for constant research and academic study into the effects of this. This study has shown that the business practices of 'guanxi' changed due to the rapid economic growth in China. Continued research into the areas of business practices in China would be beneficial for international companies. This study suggested an interesting theme, that the various elements of 'guanxi' are fundamentally related to each other. In order to take this body of knowledge forward, further research is suggested, in order to explore the relationship of the elements of 'guanxi' and possible further changes.

Leading on from this point, there is evidence to suggest that the practice of 'guanxi' is still prevalent in the government or public sectors. It will be interesting to find out, if the 'guanxi' practice prevails further or if it changes in the future. As the government sector is expected to change by stabilizing their legal system, it is suggested that further changes will be seen in the government sector. As China is still in a transitional stage the existing grey areas should be minimized in future, therefore the practice of 'guanxi' may also decrease. Furthermore with the emergence of a new generation of business managers and executives which are more globalised in their perspectives, will the identified decline of 'guanxi' and increased usage of Western business practice continue? Also is this limited to the size of the organization or is it moving into businesses irrespective of their size? Finally will this trend towards being less

reliant upon the practice of 'guanxi' practices, also be relevant in smaller cities or the countryside of Mainland China, or will it remain a large city phenomenon? As the respondents of this study suggested some variations in the operation of 'guanxi', the geographical dimension and sub cultural issues emerged. This will also raise the question of possible differences between rural and urban areas in China. All these questions warrant future research.

Leading on from these themes, there is also the debate surrounding the role that a link person plays. Further research is suggested to explore the importance of a link person for international companies conducting business in China.

Further as family type businesses have been excluded in this study, this would provide an interesting theme for future research. For example the practices of 'guanxi' in family type businesses could be studied, and then compared to the commercial sector. This would assist and maybe encourage international companies to conduct business with small family based companies.

Another exclusion in this study refers to non-Chinese managers. Therefore the business practices of Western managers conducting business in China could be studied and compared to their Chinese counterparts. This would be interesting to explore if Western managers are treated differently compared to the Hong Kong Chinese executives.

Finally the concept of social networks in China may warrant further research. As globalization and information technology will affect business relationships in future, people may increasingly interact on the internet to attract business and build networks. Therefore further research is suggested on how the traditional concept of 'guanxi' works on the internet and if it is possible to explain and/or quantify the social networks on the web in China.

## **Managerial Implications and Recommendations**

From the findings of this study it is suggested that the practice of 'guanxi' is mainly applicable to small and medium sized organizations. Larger international organizations in contrast less likely rely on the practices of 'guanxi', and instead are more reliant upon Western business practices. This is related to economic changes in China, as large organizations need to adopt more international practices, they will move away from the traditional practices of 'guanxi'. As the economic growth is expected to continue in China, further changes, such as increased use of international management practices, are expected. They may even be exporting some of the typical Chinese values, such as 'guanxi', face and Confucian values into the Western business world.

It is suggested that 'guanxi' is still relevant in small and medium sized businesses; therefore managers need to be aware of the changing practices. While some elements like favour are changing, other characteristics like hierarchy are declining, it is important to understand the prevailing practice of giving and saving face. Some of the typical Chinese manners and the traditional protocol still have its importance in today's business world.

This study has also revealed that while 'guanxi' is changing, it is also related to different sectors. For example the findings indicate that different organizations whether government / public or commercial / private will influence the extent to which 'guanxi' and its' associated elements are still relevant. Further there are different practices used by the new generation of managers, which are more open, flexible and westernized. Finally the research suggests that geographic differences emerge in cities such as Beijing, Shanghai and Guangzhou. The findings suggest that managers should not generalize the practices of 'guanxi' across China. As the business practices depend on many different factors in China, the situational factor is important. Therefore Chinese cultural values should not be taken as a fixed and stable element in today's business world. As the economy is changing rapidly some elements of cultural values

do also change according to the situation and location.

### **Contribution of the Research**

This research has aimed at deepening the analysis of the studies relating to the practice of ‘guanxi’ and culture. In achieving this aim the research has used a qualitative methodology so that the richness of the themes and experiences associated with this traditional Chinese practice can emerge. The study has shown that the dimension and practice of ‘guanxi’ has changed to varying degrees for certain sectors, managers as well as the size of organizations. Additional to the changing elements there has also emerged a strong relationship and link between these elements. These findings have contradicted previous authors (e.g. Chow and Ng, 2004; Davies *et al.*, 1995; Hwang, 1987; Leung and Chan, 2003; Su *et al.*, 2007; Yeung and Tung, 1996), who have argued that ‘guanxi’ is the key factor for business success. Instead this research has shown that although ‘guanxi’ still influences some practices in the commercial world, some of the practices have changed or diminished in their usage. This research suggests that for large organizations and the dealings with the new generation of managers, the practices of using ‘guanxi’ is seen as less relevant. Therefore the business practices depend on many variables, such as the business or state sector, as well as the size of organizations. Interestingly this finding of close association of ‘guanxi’ and the public sector is reflective of Brody and Luo’s (2008), Huang *et al.* (2010) and Xin and Pearce’s (1996) argument, who suggested that ‘guanxi’ is necessary to bypass the inefficient communist bureaucracy and substitute the lacking legal systems as well as the complex political environment. Therefore it is suggested that as soon the legal system has stabilized and the inefficiency and grey areas of the bureaucratic systems have improved, the practices of ‘guanxi’ should further change. This will also mean that cultural values will change in future. Further it is suggested as ‘guanxi’ is linked to the institutional, structural and economic background, that cultural values also depend on this background.

Finally a model of culture has been proposed, which is similar to the elements of 'guanxi'. Therefore cultural values and practices are suggested to be interlinked and dependent on each other. The values and practices are also affected by external forces and will therefore change and evolve in the future.

## Interview Guide

### General questions:

Section One = questions used to settle down candidates

Tell me what it is like to work in your company and how do the different people who work here get on together?

How do you find working with your colleagues? Is having good connections/relationship important in business? If so why?

### Main questions:

1. How do you find working with your business partners in China? Is having good connections/relationship important in business? If so why?

Pointers:

2. Describe your approach in building up your relationships with your business partners in China?

3. Describe your approach in maintaining your relationships with your business partners in China?

4. Is building and maintaining your connections in China time consuming?

5. Who is the main beneficiary in building up the relationships (the person or the organization)?

6. Can you transfer your personal network to your organization, or do you take it with you when you leave the organization?

7. Do your business partners in China prefer to do business with 'old' or 'new' business partners? Depending on the answer, why?

8. When your business partners in China build the network, is the intention to build this on a long or short-term basis? (Why)

9. What are the determining factors to strike a business deal? Have you ever felt that having good connection is the main part for a successful business deal? (Is the deal based on a contract or trust? How do you conduct meetings?)

## Appendix 1

10. How important is 'face' in China? How do you and your business partners 'save face' and 'give face'?

11. How important is trust in China? How do you and your business partners build trust?

### 12. Risks, Concerns, disadvantages (repay, obligation, corruption)

Describe some benefits while having a close connection with another organization?  
Are there any potential risks associated with having close connections?

What would you say are potential disadvantages associated with connections in business?

Has the art of networking changed due to the potential risks? Have you and your business partners used other forms due to the potential risk of corruption?

13. How do you deal with Chinese businesses compared to Western organizations?

### 14. Recent Changes

Recent Changes of building and maintaining connections, due to modernization, more Western management techniques or technology.

#### Pointers:

15. Has the approach to developing and maintaining connections changed recently – if so how and why? (Is it more important or less important, how has it changed and why)

16. How important is trust and face in doing business in modern China? Has it changed recently? Do you feel that it will continue to change / evolve in the future?

17. Are there any other points that you would like to add? Is there anything that you would like to explain or elaborate further? Is there anything that I may have missed?

## Introduction to the Interview

Dear Sir or Madam,

I am a part-time student at the University of Leicester, UK, enrolled in the long-distance programme of the Doctorate of Social Sciences Course. At the moment I am writing the final thesis and conducting a qualitative research on the following topic:

- How the traditional concept of 'guanxi' works in modern day China and recent changes

The aim is to explore ways how to build and maintain business relationships and connections ('guanxi') while conducting business in China, and recent changes encountered.

Your participation in the interview is crucial to the success of the project. I am grateful and appreciate your kind agreement to be interviewed. The interview consists of two main discussion points (how to build and maintain relationships and the recent changes) and should last for around one hour.

During the interview, recording and analysis of the data, please note that:

- the interview will be tape recorded to facilitate the analysis of the data
- your participation is voluntary
- your name and the name of the company will not be used, nor will you be identified personally in any way or at any time
- all data will be treated confidential and anonymous
- all data will be stored and analyzed in a confidential and secure way
- all data will be only used for the purpose of this research
- you may withdraw from part or all of the interview at any time

Thank you very much for your kind participation. If you wish, the result or conclusion of this project will be sent to you later.

Yours faithfully  
Andrea Thürmer Leung



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