
Insider-Outsider Perspectives of Guanxi

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ABSTRACT

The importance of developing guanxi in China business has been well established in past research. However, to date most studies have focused on the perceptions of either insiders or outsiders but not both. Given the potential for misunderstandings which may arise from differences between these two groups, the aim of this exploratory study is to investigate and compare the perceived advantages and disadvantages of guanxi networking evidenced by a sample of Mainland-Chinese and Hong Kong-Chinese executives. As the findings show, while there is broad agreement concerning the anticipated benefits of guanxi, there is less consensus regarding the relative importance of various guanxi characteristics and the costs associated with developing guanxi.

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1. INTRODUCTION

Much has been made in both the practitioner-oriented and academic literature of the prospects offered by China’s economic ascendance. The switch to a market-based economy coupled with double digit growth has attracted waves of foreign investors in numbers the likes of which has not been seen since the Mongol hordes rode down from the steppes. Drawn initially by China’s attraction as a low-cost production base and subsequently as a market for consumer and industrial goods in its own right, these outsiders have found their aspirations of economic conquest hampered by lengthy negotiations, bureaucratic delays, and institutional ambivalence. Perhaps the chief concern facing foreign investors is the lack of a stable legal and regulatory environment and the concomitant need for trust-based personal relationships as a means for obtaining resources or protection. As Redding (1993) noted in The Spirit of Chinese Capitalism, in any society where institutionalized law is inadequate for underpinning transactions interpersonal trust becomes an essential prerequisite for business negotiations. In a high context culture such as China, trust or commitment to another is secured by the potential damage to one’s social position or face (mianzi) which may result from failing to honour exchange obligations. The preservation of face and the accumulation of favours-owed (renqing) are the key drivers underlying the concept of guanxi which has been defined as personal relations or connections.

While the value of social networking has long been recognized in the Western business literature, the peculiarly Chinese concept of guanxi can be distinguished from networking in the West chiefly by its focus on the utilitarian reciprocation of favors in an unequal dyad. Other differences between East and West in networking patterns have been identified by Yeung and Tung (1996) and include an emphasis on fulfilling role obligations as opposed to the pursuit of self-interest, a never-in-balance personal ledger of debits and credits rather than prompt repayment of outstanding debts, and the Confucian deterrent of shared shame which contrasts with the Judeo-Christian concept of subjective guilt. These authors also note that guanxi shares some characteristics with nepotism in the sense that both involve situations where someone in authority will make decisions. This inequality may be traced back to the Confucian codification of interpersonal ties that define one’s place in the hierarchy of social relationships. From a Chinese perspective social chaos is avoided, not by institutional law, but by an individual’s acceptance of their proper place and role in society. In such an environment business cannot be conducted without the facilitating role of guanxi.

Developing one’s guanxi network is seen as an appropriate response to the uncertainties posed by China’s cumbersome bureaucracy. As such, there has been substantial research conducted over the past few years investigating Western perceptions of marketing and negotiation in the PRC (see for example, the studies by Brunner and Koh (1988) and Lee and Lo (1988)). More recently the focus has shifted to Hong Kong-Chinese executives (Davies et al. 1995; Leung, Wong, and Wong 1996). However, to date there has been little empirical work investigating the perceived benefits and drawbacks of guanxi from a PRC-Chinese perspective. Consequently the aim of this research is to investigate the perceptions of Mainland-Chinese regarding the value of guanxi and to compare these findings with data collected from a sample of Hong Kong-Chinese.

2. CHARACTERISTICS AND BENEFITS OF GUANXI

GUANXI BASES

Guanxi can only be established on the basis of some common point of reference such as kinship ties or, to a lesser extent, dialect group. Tsang (1998) divides guanxi bases into two types; blood bases and social bases. The former includes family members, distant relatives, even those sharing the same surname, whereas the latter arises from social interaction at school, the work-place, or the locality. For individuals not connected by a shared group identification (i.e., outsiders), the establishment of guanxi requires altercasting which may be achieved via the introduction of a mutual friend who can vouch for either party.
The strongest guanxi bases are characterized by what Hwang (1987) refers to as the affective or “expressive” ties found among family members and close friends. In contrast, more distant others, such as salesmen and customers, are connected by temporary “instrumental” ties which are enacted regularly in the pursuit of material goals. In between the two extremes are found “mixed” ties which are governed by norms of equality (a function of renqing and mianzi) and thus describe the most active domain for guanxi networking. People linked by this kind of tie (e.g., colleagues, classmates, neighbours) have overlapping social networks and, as such, their conduct is bound by the imperative to consider the renqing implications whenever one makes a request of the other.

Guanxi interaction has been viewed by many scholars as an idiosyncratic cultural phenomenon while others have argued that guanxi networking can best be explained in terms of the institutional environment presented by China’s transition to a market-based economy. To paraphrase Nee’s (1992) argument: The objective of China’s market reforms is the establishment of a neo-classical contract regime which implies the introduction of a clearly specified body of property rights and the institutions to enforce them. In the interim absence of such an environment reliance on personal connections (obligational contracting) may minimize the threat of opportunism and thus allow transactions to be consummated between independent parties which otherwise would been to be internalized within managerial hierarchies. Considered from this perspective, the transaction-supporting function of guanxi may be seen as a viable alternative to formal institutional support.

In (China’s) situation it is clear that guanxi meets a real need and provides real economic benefits to the economy. Its existence allows value-creating exchanges to take place which would otherwise be impossible because of the lack of trust exhibited between Chinese people linked to each other by the “instrumental” tie. Without guanxi or the law the mistrust which is a hallmark of Chinese culture would restrict the range of transactions to those amongst individuals sharing “expressive” ties, that is to say family members and very long-term acquaintances. An economy in which specialization and the division of labour was constrained in this way would be a poor one indeed. (Davies 1995, p.162)

How does the cultivation of guanxi improve business efficiency in a developing economy? Two approaches to this question are evident in the guanxi literature. The first concerns the identification of those salient traits and activities which collectively define guanxi networking, and the second highlights the perceived benefits which result from such activities. As a multidimensional construct, guanxi has been operationalized in terms of reciprocal but unequal exchanges, giving face, trust and commitment, wining and dining, and, most importantly, interpersonal bonds (see for example the study by Fock and Woo 1998). In addition, a number of guanxi-derived benefits have been identified ranging from access to information regarding government policies and business opportunities, to the procurement of necessary resources such as land, raw materials, and import licenses (see for example, the study reported by Davies et al. (1995)). Given the obligatory nature of renqing, some scholars have characterized the advantages of guanxi in terms of anticipated benefits or rewards such as enhanced prospecting for customers and the facilitation of future transactions. Others have gone so far as to suggest that guanxi offers a more broadly flexible approach to business than the legalistic and contract-bound Western alternative. For example, an entrepreneur facing an unexpected crisis may be rescued by old friends, while renqing-conscious suppliers may be inclined to extend credit rather than embarrass customers who are temporarily unable to settle accounts.

3. THE COSTS OF GUANXI

Offsetting the benefits of guanxi are a number of disadvantages and hidden costs. Chief of these is the severe handicap imposed on outsiders who lack guanxi and who must invest energy and resources to overcome this significant barrier to entry. For Westerners schooled in the microeconomic principles of investment analysis (which are axiomatically based on undersocialized assumptions of market behaviour), the initial hurdle is especially imposing as often the final decision-maker cannot be immediately identified and the potential return cannot be realistically gauged. Even after “good guanxi” has been established there are no guarantees that investment decisions will not be biased in
favour of better-placed insiders as McDonalds famously learnt in the mid-1990s. To the victor go the spoils but to the loser the transaction smacks of corruption. While the favouritism inherent in the practice of guanxi may or may not be judged as nepotism, it is more accurate to say that corruption itself reflects an inefficient and bureaucratic administration which lacks effective mechanisms for controlling the abuse of position and power and thereby engenders opportunities to engage in corrupt activity. In other words, corruption, as with guanxi, is a response to institutional weakness and in particular, shortcomings in the legal system. For these reasons Guthrie (1998) draws a distinction between guanxi (social relations) and guanxi xue (the use of social relations to accomplish tasks), which is imbued with negative connotations. Guthrie argues that increasingly Chinese managers are finding themselves compelled by market forces and the institutionalization of a legal infrastructure to distance themselves from the “crooked” ways of guanxi practice. King (1991) adds, however, that while devious use of guanxi for personal gain is generally frowned upon by Chinese people, the practice of going through the back door will persist until a strong rule-of-law is introduced into Mainland society.

4. METHODOLOGY

Much of the guanxi research conducted to date has been specific in focus and particularistic in scope. Given the need for outsiders to develop an understanding of guanxi dynamics, it would seem that data collected solely from one group (either insiders or outsiders) would contribute little towards the identification of those salient differences between the groups which create misunderstandings in cross-cultural business. In view of this gap in the literature, the aim of this study is to compare the different perspectives concerning the perceived advantages and disadvantages of guanxi evidenced by a sample of Mainland and Hong Kong-Chinese respondents. This choice of sampling frame is motivated largely by the desire to emphasize the differences in institutional environments whilst minimizing the impact of exogenous cultural factors. That is, by selecting respondents with a common ethnic heritage from two diverse locales at different stages of economic development, it is hoped that some interesting comparisons will be possible.

With the aim of screening a list of operational indicators identified in the extant literature, a focus group discussion was held with five Hong Kong executives experienced in the China trade. Following the procedure used by Redding (1993), the discussion was conducted in the form of a dinner meeting where each guest was invited to share their personal experiences and insights regarding the role of guanxi in China business. Following the focus group discussion, a structured undisguised questionnaire was developed with the majority of items coming from Fock and Woo’s (1998) recent study of Hong Kong-based China traders. A number of additional measures relating to the perceived benefits of guanxi were sourced from the study reported by Davies et al. (1995). Chinese and English language versions of the questionnaire were prepared and then pretested on a sample of five executives, one of whom was based in the PRC. This pretesting led to one minor modification of the original questionnaire.

SAMPLE SELECTION

Hong Kong: Since Hong Kong companies involved in China business are scattered across a wide range of industries, the 1996 Members’ Directory of the Federation of HK Industries was used to define the sampling frame for the Hong Kong component of the study. From this list 800 companies were randomly selected and then contacted by telephone to arrange an interview. In 374 cases gatekeepers (receptionists and secretaries) refused to put the call through stating that their bosses were out of town or were just too busy to participate. In all, there were 68 valid replies, either via telephone or fax, giving an effective response rate of 16.0 per cent. While somewhat low by Western standards, this figure compares favourably with other studies done in survey-averse Hong Kong.

PRC: The data collection activities in the PRC component of the study were influenced by a number of practical considerations including the lack of comparable and complete industrial directories from which to derive a sampling frame and, more importantly, the general disinclination of Mainland
businesspeople towards revealing information about their privy guanxi networks to outsiders. To address these difficulties required drawing on the guanxi ties of the first author who has a relative actively engaged as a middleman working in Guangzhou. It was felt that the network access presented by the business connections of this relative would result in greater confidence in the truth value of the findings, albeit at the cost of generalizability. After being fully briefed in the methodological procedures of the study, the relative contacted his customers in Guangzhou and faxed them a copy of the questionnaire. From this convenience sample 30 usable replies were received.

5. FINDINGS AND DISCUSSION

In the first part of the analysis the demographic characteristics of the Hong Kong and Mainland samples were compared. Each group was found to be broadly similar in terms of sex (males predominated), level of education achieved (most had attended University), years in China business (most had more than three years experience), and position within the company (a similar mix of managers and sales representatives was observed in each group). In addition, the Hong Kong respondents were asked to provide more specific information regarding the number of business trips made to the Mainland in the past year. Of this group more than four-fifths had visited China on business on more than four occasions (while half of that number made at least ten trips during the year), indicating their suitability for the study.

GUANXI CHARACTERISTICS

Respondents were asked to indicate the extent to which each of eight different indicators described guanxi as they perceived it. The relative importance of each variable in business dealings within China was also ascertained. The results show that both groups most strongly identified with the interpretation of guanxi as personal relationships a finding consistent with previous research on the topic. Although not rated as highly in terms of performance, both groups evidenced similar perceptions regarding giving face, the exchange of benefits or favours, and the exchange of information. A number of significant differences were also evident between the two groups. The Hong Kong executives in the sample placed a higher priority on social activities and entertainment, perhaps reflecting the greater economic opportunities available to them to engage in such behaviour, whereas their Mainland counterparts emphasized the value of commitment, trust, and mutual cooperation. These dissimilar opinions are consistent with the institutional differences between the two societies. Hong Kong is characterized by a strong rule-of-law and an impartial judiciary inherited from its Colonial days. In such an environment business can be conducted between strangers and a more commercial, utilitarian orientation towards guanxi, where needed, is likely to be adopted.

THE BENEFITS OF GUANXI

Ten potential benefits of guanxi networking were identified and respondents were asked to indicate the extent to which each was evident in their own experience. No significant differences were observed between the two groups on nine of the benefits with respondents rating the anticipated future benefits (increased prospecting, gain new business, facilitate future transactions) most highly (Table 1). In contrast, both Hong Kong and Mainland respondents placed less emphasis on the value of guanxi in facilitating payment collection or building the corporate image reflecting the highly interpersonal nature of the construct. Although both groups ranked the elimination of competition as the least likely benefit, the Hong Kong-Chinese respondents did, however, rate this variable higher than their Mainland counterparts, possibly reflecting the more potent market forces to which they are exposed. Overall, Mainland respondents were more apt to disagree with the statement that guanxi offers no benefits at all.

INSERT TABLE 1 ABOUT HERE
THE DISADVANTAGES OF GUANXI

Finally, respondents were asked to indicate the extent of their agreement with three statements reflecting the perceived disadvantages of guanxi and, as the findings show, Hong Kong and Mainland respondents held widely-divergent opinions (Table 2). In short, the Hong Kong respondents consistently reported stronger negative feelings towards the drawbacks of guanxi (spending time and money, perceived as being corrupt), than their Mainland counterparts. In China guanxi has been a way of life since time immemorial and the personal investment required to develop and maintain good social relations is accepted as an unavoidable fact of life. In contrast, Hong Kong respondents are more likely to be sensitive to the costs of cultivating guanxi because they are accustomed to operating in a more liberal environment where transaction costs are lower, information diffuses more freely, and where the Independent Commission Against Corruption (ICAC) has done a fair job of enforcing the government’s anti-bribery laws. Another interpretation for the finding was suggested by one focus group member who noted that in cross-border negotiations, it is usually the wealthy Hong Kong businessperson who picks up the bill for dinner and entertainment.

6. SUMMARY AND CONCLUDING REMARKS

The findings of this study need to be interpreted in light of the limitations to generalizability imposed by the non-probability sampling of Mainland respondents. Bearing that caveat in mind, the study has nevertheless illuminated some of the areas of divergence regarding Mainland and Hong Kong perceptions of guanxi. Although further research is needed before any firm conclusions can be drawn, the study has revealed that while both groups define guanxi in terms of personal connections yielding a consistently similar set of benefits, significant differences exist regarding the importance of various guanxi activities and the costs incurred in undertaking those activities. Hong Kong executives are apt to be more interested in enhancing their reputation via the hosting of social activities and entertainment, whereas their Mainland counterparts are more concerned about questions of trust and commitment. These differences may reflect disparate expectations regarding payback periods with time-conscious Hong Kongers biased towards the more immediate benefits ofwining and dining, or they may belie a relative crassness which Mainlanders would no doubt attribute to the conspicuous materialism of their southern cousins. Either way, the costs of developing guanxi are more keenly felt by Hong Kong Chinese who, tellingly, reported that the investment of time surpassed the monetary expense and the stigma of corruption as the chief drawback to developing guanxi.

The need for outsiders to develop guanxi when doing business in China has been well established in past research. But as the findings of this exploratory study indicate, the concept may be interpreted differently by insiders and outsiders. While there is broad agreement regarding the nature of benefits which result from having good personal connections in China business, there is less consensus regarding the relative importance of other guanxi characteristics and the perceived costs associated with developing guanxi. This suggests that for foreign investors from low-context cultures, there is a need to strike a balance between the temptation to simply throw money at the guanxi barrier, for example, in the form of hosting lavish banquets, and the more real need to invest the time to get acquainted and develop bonds of interpersonal trust. As the findings of this study show, Mainland Chinese are apt to be more responsive to investments of time rather than money, and while developing one’s face is important, such considerations are subsidiary to issues of trust and commitment.

REFERENCES


Kong.


### Table 1: Benefits of Guanxi

<table>
<thead>
<tr>
<th>Factor Name</th>
<th>Factor Means (SD)</th>
<th>t-Value</th>
<th>2-tail probability</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>HK Chinese</td>
<td>PRC Chinese</td>
<td></td>
</tr>
<tr>
<td>Increase prospecting</td>
<td>4.206 (0.821)</td>
<td>4.133 (0.937)</td>
<td>0.367</td>
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<tr>
<td>Increase sales revenue</td>
<td>3.971 (0.930)</td>
<td>3.733 (0.785)</td>
<td>1.301</td>
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<tr>
<td>Enhance negotiation</td>
<td>3.662 (0.940)</td>
<td>3.700 (0.837)</td>
<td>-0.201</td>
</tr>
<tr>
<td>Gain business</td>
<td>4.015 (0.872)</td>
<td>4.000 (0.587)</td>
<td>0.084</td>
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<tr>
<td>Eliminate competition</td>
<td>3.206 (1.191)</td>
<td>2.500 (0.820)</td>
<td>2.947</td>
</tr>
<tr>
<td>Facilitate future transaction</td>
<td>3.838 (0.803)</td>
<td>4.033 (0.615)</td>
<td>-1.313</td>
</tr>
<tr>
<td>Source of information</td>
<td>3.838 (0.839)</td>
<td>4.133 (0.681)</td>
<td>-1.836</td>
</tr>
<tr>
<td>Source of resources</td>
<td>3.868 (0.879)</td>
<td>4.133 (0.629)</td>
<td>-1.696</td>
</tr>
<tr>
<td>Build company image</td>
<td>3.323 (1.099)</td>
<td>3.633 (0.765)</td>
<td>-1.400</td>
</tr>
<tr>
<td>Logistic &amp; payment collection</td>
<td>3.368 (0.896)</td>
<td>3.033 (0.850)</td>
<td>1.764</td>
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<td>No benefits</td>
<td>2.368 (1.280)</td>
<td>1.700 (0.466)</td>
<td>3.771</td>
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### Table 2: Disadvantages of Guanxi

<table>
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<th>Factor Name</th>
<th>Factor Means (SD)</th>
<th>t-Value</th>
<th>2-tail probability</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>HK Chinese</td>
<td>PRC Chinese</td>
<td></td>
</tr>
<tr>
<td>Expensive</td>
<td>3.662 (1.277)</td>
<td>2.300 (0.988)</td>
<td>5.191</td>
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<tr>
<td>Time consuming</td>
<td>3.721 (1.170)</td>
<td>2.300 (0.988)</td>
<td>6.191</td>
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<tr>
<td>Perceived as being corrupt</td>
<td>3.000 (1.120)</td>
<td>1.733 (0.785)</td>
<td>6.416</td>
</tr>
<tr>
<td>No disadvantages</td>
<td>2.338 (1.114)</td>
<td>2.367 (0.718)</td>
<td>-0.128</td>
</tr>
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