

Guanxi Networks in East Asia



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Social Networks. Pros and Cons

- People prefer to have business with those with whom they have ties of friendship or kinship;
- Personal connections are valuable for gaining access to jobs & enhancing career prospects;
- On the contrary, such exclusiveness has its shortcomings – meritocracy is blocked, therefore more productive ways could be cut off;

East Asia Social Networks Overview

There are many differences between the nations within the region and, while 'maintaining harmonious relations' is a key uniting theme;

Guanxi in Chinese communities - development of long-term personal relationships based on kinship and regional connections;

The Japanese,- the importance of group harmonies and social relations and place more emphasis on corporate connections than those based on strictly kinship relations;

In Korea, the emphasis on maintaining harmony, or *inhwa*, frequently occurs through kin-based hierarchies and authority relationships, a pattern which is reflected in the 'clan-like' nature of the nation's largest organisations

The Concept of “Guanxi”

What is “*guanxi*”?

- The term 关系 (*guanxi*) is often used to indicate the existence of some sort of personal relationship such as a friendship, classmate or kin connection

Two points of view upon the “*guanxi*”:

- 1) It is different because of deep cultural roots in Confucian philosophical tradition
- 2) Guanxi can change with transformation of institutions, when society & institutions undergoing rapid transformation

Guanxi in China

关系

- Phenomenon of 关系学 (*guanxi xue*);
- Derived from the Confucian desire for respect and harmony, where reciprocity becomes a moral duty and the gift, in this context, becomes an object that materially acknowledges the existence of a ritualised relationship between two people;

Two Ways of Understanding

- In understanding *guanxi* a foundational assumption is that China is a collectivistic society;
- Society seeks to describe *guanxi and guanxi practice* in relation to other aspects of social life in China, such as human feelings (人情 - *renqing*), face (面子 - *mianzi*) and reciprocity (报 - *bao*);
- Whilst outside commentators (business people) may emphasize the instrumental nature of *guanxi practice*;
- Chinese usually emphasise that ‘real’ *guanxi must contain an affective element*;

Increasing Significance of *Guanxi* Since 1978

Guanxi – as a Confucian human resource management;

- The term must also be contextualized against the backdrop of the current popular discourse on Confucianism in China which coexists with Sino-Marxism and the CCP's adoption of the concept of the 'harmonious society' to legitimate its current political agenda;
- The importance of institutional influences in adapting seemingly stable 'traditional' elements of Chinese philosophy to modern HRM practices;

Wa and *Amakudari* in Japan

- *Wa*, or harmony, in Japan tends to occur through group activities in organisations rather than through the dyadic relationships based on family and region ties that are more common in China;
- From a business perspective, one important aspect of this relationship form is that, once accepted into an organisational group, members are considered to be under its permanent protection;
- This is reflected in the labour market ideal of lifetime protection in an organisation in return for loyalty and high levels of work commitment;
- But today such approach does not fully correspond to the situation;

Peculiarities of Japanese Network System

Amakudari concept – postretirement, ‘descend from heaven’;

Madoguchi (windows), to the role of association networking who, as well as being tasked with establishing connections during the formal meetings of the association, are expected to engage in informal, after-work socialising, or ‘bar hopping’ (*nijikai*) to gain valuable information;

The term ‘nominication’, a combination of the Japanese ‘*nomu*’ – *to drink* and the English word ‘communication’;

The connections which *madoguchi* develop remain the connections of the firm, rather than of the individual, who will ‘pass on’ his network to his successor when he leaves the *madoguchi* role;

This is an important difference with *guanxi* in China where the network remains the ‘property’ of the individual, rather than of the firm;

Inhwa and *yon-go* in Korea

- Chaebol as a pattern of 'clan management' in Korean corporations;
- Companies are frequently viewed metaphorically as 'parents' and employees as 'family';
- 'in-group' harmony or *inhwa* in the organisational network;
- *Yon-go* connections are those based on clan, blood, geography or education and business owners would traditionally recruit employees from their hometown, school or university in the same way that they would bring their relatives into the organization;
- The shift towards recruitment practices which are now based on more meritocratic systems of assessment and open competition;
- the *yon-go* system of recruitment from elite universities is still in evidence in the *Chaebol*;

Guanxi in Chinese Communities of East Asia

- Comparison of the use of *guanxi* in Taiwan and mainland China - in Taiwan, although *guanxi* remains an important element of business development, managers are less driven to maintain *guanxi* relationships over the long term, adopting a more 'business is business' approach;
- The study of Chinese business networks in Singapore shows that a 'desire to gain legitimacy in the eyes of international companies, and acceptance of legal-rationalistic procedures, have effected changes in business principles';
- Chinese business people working in Singapore felt that impersonal 'professionalism', rather than personalism associated with *guanxi*, was the most credible and effective way of doing business;

Primary Components of Chinese Culture in Business Practices in EA

- Paternalism (result of the power of Confucian ideals to encourage rigid vertical order in organisations based on the exchange of obligations);
- Personalism (Confucian cultural heritage & institutional peculiarities);
- Insecurity (removal of traditional sources of government support leads to the feeling of vulnerability);

The Influence of Institutional Forces on *Guanxi* Practices

- National People's Congress works on the rationalization of business practices for the last 30 years;
- A shift of *guanxi* to the western understanding of 'social capital';
- Some researchers claim that that *guanxi* practice is in decline as China develops a rational-legal system based on formal laws and procedures;
- Nevertheless, *guanxi* networks are still important for gaining desirable jobs in the state sector;
- Large non-state sector corporations now rely on a more standardised and transparent recruitment process that can accurately identify the most well-qualified candidates in a meritocratic fashion;

Optimistic & Pessimistic Views on *Guanxi*

- Positive: Rationalisation processes, competitive pressures and the rule of law means that Chinese firms and their employees are now much less in need of *guanxi* practice to get things done;
- Negative: impartiality of law enforcement in China means that the economic system is still heavily reliant on 'back-door practices' (后门 - *houmen*) and bribery;
- Utilization of *guanxi* 'discourse' as an informal institutional mechanism to facilitate the contracting process in corrupt exchanges;

Guanxi Networks Amongst Foreign and Chinese Managers

- Many studies underscore the difficulties involved in running an MNC in a region where access to informal but influential networks remains a necessity;
- *Guanxi* are often difficult to sustain and costly to build;
- It may depend too heavily on a key individual who may lose their power very rapidly;
- The lack of transparency in *guanxi* networks > foreigners are particularly vulnerable to the influence of 'phony players' (who are not as influential as they claim to be) > significant losses in time and money and to extensive reputation damage for MNC;

Guanxi & non-Chinese MNC's

- Foreigners need to exercise great care when engaging in *guanxi practices* because it is simply not in the interests of the organisation to become involved in activities which may in the long term become harmful to the company as a legal entity;

The significance of *guanxi* is very likely to decline:

- formal laws become more strict
- Chinese managers with international MBAs seek to run their organisations according to international business norms;

Dangers of 'bad' *Guanxi*

- *Guanxi* can increase the efficiency of an MNC because bureaucratic blocks are removed and this, in turn, can create greater stability due to the influx of more reliable flows of information;
- Good connections may also increase the legitimacy of the firm;
- Do not reinterpret the norms of the local context to justify their actions, engaging in 'back-door practices'

Dangers of 'bad' *Guanxi*

A study by Deloitte in May 2009 reported that nine in ten US businesses were concerned about the possibility of FCPA (Foreign Corrupt Practices Act) violations while doing business in China



Conclusion

- Formal law becomes stronger and the market economy becomes ever more firmly established, the role of *guanxi* practice diminishes in the urban industrial sector;
- Because of changes in China's state distribution system, 'previously scarce items and services now available on the market for ordinary people – no need in *guanxi*;
- *Guanxi* topic is still essential for business. It is in the interactions between private entrepreneurs, managers (both Chinese and foreign) and state officials where *guanxi* retains its influence;
- For the global manager, the benefits of establishing 'good' *guanxi* are significant, but they should also be alert to the dangers of 'bad' *guanxi*.



Thanks for your attention!