

Alternative Guanxi Model

By

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Social Interaction Theory

Social Interaction theory has its roots in the works of writers such as Cooley, Dewey, Baldwin, and Mead, and the German academic tradition, Georg Simmel, Wittgenstein, Hegel, von Wiese and Weber. (Rose 1962:3-15) Herbert Blumer of the Chicago School of Sociology in advancing this tradition used the term 'symbolic interaction' to denote the idea that people live in a symbolic world as well as a physical world of interaction. (Blumer 1990:xiv) And these ideas have been further developed to constitute 'decision theory' in the discussion on the problem-solving behaviour. (Buckley 1967:22) Yet, the work of George Herbert Mead remains foundational in the development of social interaction theory. Key ideas embedded in Mead's theory of social interaction are but briefly presented here in order to allow a discussion of the guanxi social system as an interaction model to follow.

Guanxi as an Interactional Model

Guanxi (*kuan-hsi*) translates as 'personal relationship', refers to the environment of personal relationships and group cohesion of mutual trust created by the connectedness of relationships within the community. *Guanxi* involves both the building of relationships as well as the process of using and building relationship networks (*guanxiwang*) to broker influence and give preferential treatment to family and favoured associates. Chinese society is built on the networks of relationship with close family members constituting the core. *Guanxi*, then, is expressed in the form of doing favours, providing opportunities, and giving discounts to those with whom relationships are strong.

As a social system, *guanxi* is built on the precepts of Confucianism and as a relational system has similarities to Mead's interaction social theory. Ambrose Yeo-chi King suggests that the central problem addressed in Confucianism is the constitution of proper human relationships. (King 1996:231). While providing general guiding principles for harmonious life, the Confucian social theory allows for flexibility and for relationships to be modified to meet the requirements of social and commercial life. The theory is primarily concerned with social cohesion and presents the individual as a social being never isolated or separate from others. In referring to Mead, King points out that "the Confucian individual consists of a self (*chi*) that is an active and reflexive entity". (King 1996:324)

The concept that society is the sum of its individual relationships is fundamental to Confucian social theory. While the Japanese, for example, have a strong social system based on collective groups such as the family or employment, the Chinese system is built

on relations between particular individuals; father and son, husband and wife, buyer and seller, creditor and debtor. Confucian social order, however, is not based upon social homogeneity or equality but differentiation. (King, Luo) Not all relationships are the same or carry the same value, importance or intimacy. *Guanxi* can, accordingly, be described as a social system of graded interpersonal relationships derived from the degree of intimacy and value ascribed to the relationships concerned. Accordingly, *guanxi* is the dynamic of human interactions of people within a differentiated society.

As a social system constructed upon interrelationships, social order derives from mutual trust and obligation, be it differentiated, between individuals. While loyal and mutual trust is strong among family members, that may extend to people who are not biologically related, in a differentiated system, it is counter-balanced by distrust of strangers. Trust, obligation, and preferential treatment are all features of this dynamic relational system. It is through the fostering of social relations that networks develop as a “complex web of mutually-binding obligation and dependencies” (Lassere 1999:127) The Chinese people place far more emphasis on informal relationships and trust with little traditional recourse to use formal contractual agreements or legal proceedings. (Whitley 1994:227)

In China, *guanxi* has a broad application to family and social networks, but in SE Asia *guanxi* takes on a particularly strong commercial quality for the Overseas Chinese in the context of foreign and sometimes unfriendly environments. Consequently, as *guanxi* is strong in family relations in SE Asia, it is also strong in Chinese business negotiation and management and is fundamental to the Overseas Chinese business system in SE Asia. (Limlingan 1986; Wong 1997; Foo 1995) As the Overseas Chinese or ‘southern sojourners’ (the Nanyang hua-qiao) have become established they have been known for their family networks. The origins of these ‘networks’ have developed often under economic necessity as well the need for social and economic welfare. From the business perspective, probably the most significant advance of Chinese business has been the formation of Chinese business associations. These have traditionally been formed along the lines of kinship, locality of origin, crafts and dialect.

For the Overseas Chinese in SE Asia, the management of business is equated with the management of life. In focusing on *guanxi* as an expression of business interaction, the *guanxi* business model is to be appreciated as a model of business management by relationships. As an expression of Confucian principles, the transaction of business is firstly and primarily a transaction and interaction among people - in business.

Guanxi has become so fundamental to business management and marketing that Luo reports that a new term has been derived, *guanxihu*, to describe ‘specially connected firms’. (Luo 1997; Amber 1994) But unlike the networks of companies and people of the West, where there is mutual give-and-take, in the *guanxihu* business system obligation and respect are based upon social and corporate positioning. Within a network there are ‘stronger’ and ‘weaker’ members. As the stronger members have an obligation to give, and continue to give, to the weaker members, so the weaker members demonstrate their respect and give honour to the stronger members of the network. (Pye 1986).

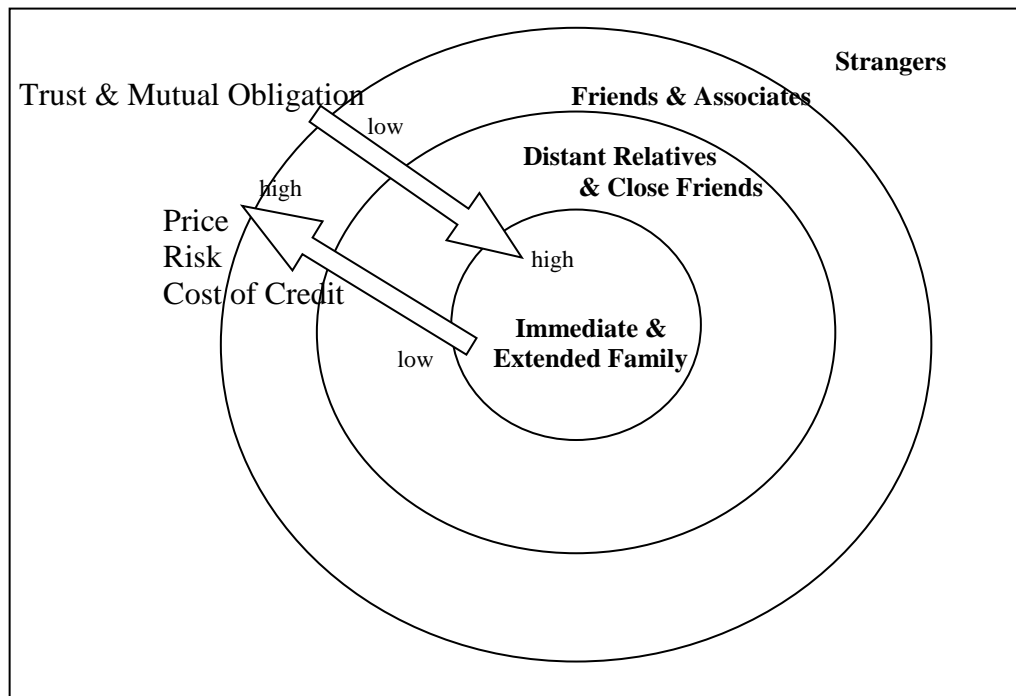
In business, *guanxi* is not just about closing a deal or building a relationship. It is about building life-long relationships and business associations across an integrated web of

social roles and responsibilities. "If necessary, *guanxi* may involve the constant giving without obtaining a favour in return or visa versa, provided there is enough trust in the relationship to know that when a reasonable favour is asked it is given". (Buttery & Leung 1998:383) Again, business arises out of the nature and strength of the relationship and *guanxi* and *guanxihu* are as much an expression of cultural values and as they are of a business marketing strategy. Accordingly, interaction theory explains why the process of negotiation and relationship building receives such importance in conducting business with the Chinese, in contrast to the Western emphasis on the moment of exchange. (Gumersson 1994:31-44) The exchange event occurs as an outcome of the relationship, however weak or strong that may be, and is understood as part of the ongoing *guanxi* or relationship building process that spans many years. Amber suggests that; "the Chinese believe that one should build the relationship and, if successful, transactions will follow. Westerners build transactions and, if they are successful, a relationship will follow. " (Amber 1994:69)

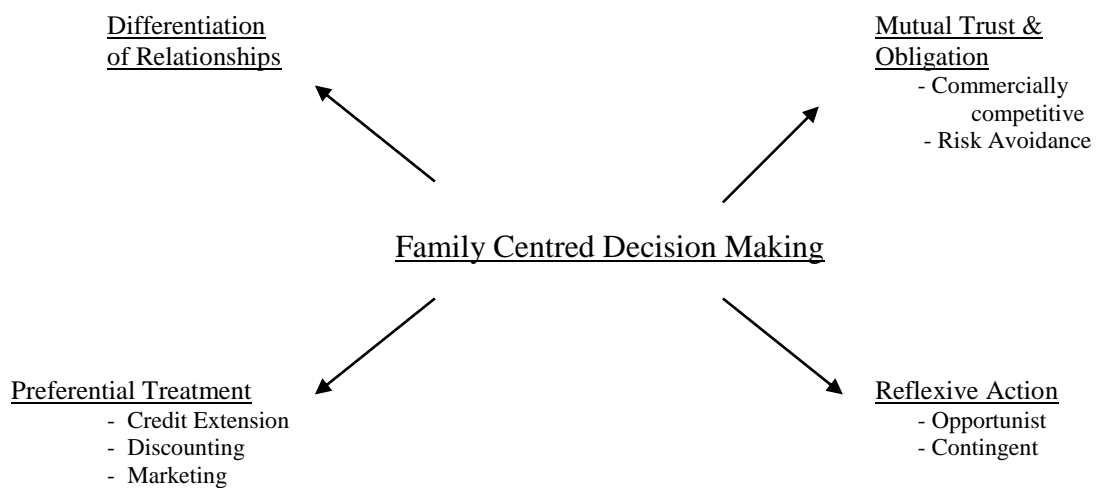
It is proposed here that the *guanxi* social system as an ongoing process of human interaction is both a social matrix and a commercial matrix. While it provides boundaries to human behaviour, it is also a means for purposeful interaction for both social relations and socio-commercial relations. As a social-commercial matrix, *guanxi* is, first, a mechanism for meaningful communication. Through language, numbering and a myriad of symbols communication is the sharing of culturally enriched meanings in the process of building relationships. Second, it is a system of order. With strong collectivist (Hofstede 1997) tendencies and a stronger personalized presence of a 'generalized other', or 'me', social order is maintained at the very primary level personal relations and even self-definition. And third, *guanxi* is a means of enforcing social obligation. Strong social bonding and the awareness of position within a differentiated system mean that people are very sensitive to maintaining their social stature and saving face (*mien-tsu*). In social relations and in commercial relations, a person's reputation is extremely important. People are anxious not to be seen as avoiding their obligations. Alternatively, building good *guanxi*, by doing favours, providing discounts and expressing generosity, contributes to social status.

The value of seeing *guanxi* as an interaction model of commercial life has received some attention. (Buttery 1999; Hakansson 1982; Gumersson 1994; Luo 1995 & 1997b; Walters 1995; Ambler 1995; Anderson and Narus 1990) But it has been particularly viewed as a model of marketing interaction to the neglect of a presentation of *guanxi* as a system of social and commercial interaction. In response to this need I offer the following conceptual model, or matrix, of the Overseas Chinese *guanxi* socio-commercial system demonstrating both the graded differentiation of relations and the preferential treatment given in interactions in the *guanxi* system.

A Conceptual Model of *Guanxi* as an Interaction Business System



Elements of the Model.



1. Family Centred Decision Making.

The centrality of the family to Overseas Chinese life and its interrelationships, especially the primary relationship of father-son, carries over into people's propensity to work hard in business and study. In the business context, it is important that entrepreneurial activity, by way of starting and growing new business, be carried out by immediate family. While advancement and accumulation of wealth are central values to Overseas Chinese life and *guanxi* interrelationships, they are, however, essentially family values. As Backman suggests, "The economic unit is not the individual but the extended household." (Backman 1995:126) The family centred focus of Chinese family business (CFB) allows for one person to retain control while maintaining a highly personal nature of decision making. (Whitley 1994:63)

2. Differentiation of Relationships

Business differentiation is based upon the strength of relationships. The primary relationship for the Chinese is between father and son, and then includes other family members and then other relatives and friends. Accordingly, family business favour is prioritized or graded depending upon position and strength of the relationship. Superimposed upon this structure, is a respect for strength, or status, and regard for weakness, or people in need. Status is very important to the Chinese community. While status is met with respect and honour, it comes at the price of obligation to others of less fortune. Respected, high status members of the family and community are obliged to give and perhaps keep on giving without material return. (Buttery & Leung 1998:383) This dynamic of strength-and-weakness, rich-and-poor allows special attention to people in need, and in times of need, and can grant them the same benefits of preferential treatment and price discounts afforded to close family. Alternatively, where relationships have been damaged or not strong, the principle of preferential treatment for family members can be broken leading to relatives being charged higher prices for goods and services, or even charged more simply because they can afford it. Differentiation, like the other elements of the *guanxi* model, act as a dynamic of interaction within the socio-commercial matrix.

3. Mutual Trust and Obligation.

While trust and loyalty are taken for granted among family members, mutually-binding obligations in terms of help or reward is an extension of the family circle and the basis of *guanxi* network building process. Networks are built on an integrated line of mutually obligated family relatives, friends and associates: My friend's friend is also my friend. Of course, relationships of obligation and trust require much work and persistence to see them sustained. (Ewing 1998) The tiers of family and of family heritage mean that the richer members are expected to 'care' for the poor members of a family or family lineage, known as *renqing* (for example, by way of financial provision and preferential pricing). This can also mean that in business a merchant will charge his family members more for products rather than the normal commercial price simply because they can afford it, or they are richer than the merchant.

i. Risk Avoidance.

In terms of business principles, *guanxi* is essential management by risk avoidance. In the absence of the protection of law and legal documentation,

business transactions, whether small or large, are conducted on the basis of trust. Redding suggests that for the Overseas Chinese the uncertainty of the business environment mean that risk sharing and avoidance are fundamental presuppositions to their management. (Redding 1997:459, Hofstede 1997) In principle, the people who are trusted most are those of low risk. This understanding of the risk factor explains why even some family members can be out of favour with their relatives at a given time and why some 'outsiders' or business associates are accepted and trusted.

ii. Commercially Competitive

Based on mutual trust and obligation, the Overseas Chinese in SE Asia have proved to be very successful business because of their highly competitive business strategies (Limlingan 1986). A central feature of their business success, Limlingan contends, is their willingness to accept lower prices for their goods and thereby undercut their indigenous competitors. The strategy of accepting lower margins is supported by their willingness to sell goods on credit and thereby transfer surplus stock to the consumer. (Limlingan 1986:73-75) Systems of trust and obligation, accordingly, play a major role in the success of their operation. Lower margins are supplemented by higher turnover, fast recovery of debt, low inventory and, thus, higher profits.

3. Preferential Treatment

i. Credit Extension

In the social and commercial context of *guanxi* where relationships are painstakingly nurtured, merchants will do their utmost to maintain harmony and ensure that their customers who were temporarily unable to pay cash, were not embarrassed. For buyers, of course, the extension of no interest credit is an added advantage to their business. Limlingan argues that it also holds advantages also for the seller. In rejecting financial controls and financial reporting, CFBs prefer credit management as a financial system. While credit within the Western system requires credit checks and legal documentation, in the CFB, credit is a matter of personal reference and guarantees. There are also marketing advantages, Linlimgan suggests, as surplus stock is passed along as credit sales to the consumer – bringing both parties decided advantages. (Linlimgan 1986:72, Luo 1997) Luo suggests that credit extension is an intricate part of *guanxi* business relations. (Luo 1997:54)

ii. Discounting

Providing discounts in Western economies are usually representative of business-to-business transaction and focus on securing and closing a transaction. For the Overseas Chinese business, in contrast, the Overseas Chinese *guanxi* system, price structuring and discounting is not a straight-forward issue in SE Asia. Doing favours and giving discounts on products and services is not an exchange-focused strategy simply to bring more sales. Preferential treatment by way of price discounts and favours is an expression of a broader strategy to build

relations, meet obligations, and secure new and long-term business and is fundamental to their way of life and way of doing business. From the customer's perspective, the dilemma for SE Asian consumers is that they often want quality products at a low price. But price is often perceived as an indicator of value. Accordingly, in marketing products in price-sensitive environments requires more than low prices, it requires increased perception of value – and this is achieved through giving discounts.

iii. Marketing

In the context of the *guanxi* network, it is common for members of the family business to be dispatched to conduct face-to-face business with associates, or friends of associates. While there is something of an obligation to buy, there is also an obligation to 'make a deal', give discount or extend credit. As part of their low-margin sales strategy, offering credit as a marketing tool allows moving surplus stock as credit sales. (Luo 1997; Limlingan 1986) This marketing form business by credit can be used extended a business or establish a business outlet to target a particular area of city. It can also involve hiring non-family sales representatives on a commission basis to build the network by offering credit. (Luo 1997)

4. Reflexive

In parallel with the Meadian social theory, Confucian social theory presents the individual as both an active and reflexive being in the social system. As the individual brings independent thought and action to the group, so the dynamics of the community are relative and elastic. (King 1996:324) In the Confucian construct there is no group boundary as such. The family as the basic social unit is elastic and able to respond to situations as they arise. The boundary is elastic enough that each individual is free to develop their own *guanxi* as broadly as they wish. (King 1996:324)

i. Opportunist

Confucian social theory, in providing a set of principles for life and business, allows for family and business decisions to vary and respond to opportunities as they arise. Indeed, flexibility is one of the essential ingredients to building a *guanxi* business relationship. (Ewing et al 1998) Accordingly, Chinese business relationships are very accommodating. Because of the communal ownership, and centrality of authority, it is a relatively easy task for a family business to be flexible and adapt to changing situations and relationships. Chinese business is, understandably, very calculating. (Chin-ning 1990) The centrality of wealth creation and making money means there is a constant search for a good deal. But nothing is fixed or permanent. As relationships change so there is always a new deal to be made. Thus, Chinese business is not static but dynamic as some people are 'in favour' and others 'out of favour' at any given time.

ii. Contingent

Business by 'contingency' is perhaps an adept way of describing *guanxi* business practice. The actual business conducted is 'contingent' upon a number of factors, such as the level of risk, the quality of the relationship, the financial position of the parties, previous family history and dealings, and the situation in which the business takes place. Therefore, every commercial exchange or interpersonal exchange is different. The situational approach to business transactions leads readily to a willingness to adapt to new and varied situations as business managers seek to balance benefits and cost of each opportunity.