

# **The Financial Crisis as ‘Critical Event’ for the *Guanxi* Business System: A Social Interaction Interpretation.**

**By:**

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## **Abstract:**

*While the Overseas Chinese guanxi system of building social-commercial networks has been successful across the South East Asian region, the financial crisis of 1997-98 brought criticism of this ‘Asian way’ of conducting business. Yet, it remains to be asked whether the financial crisis a ‘critical event’ for guanxi bringing radical change to its social-commercial fabric? It is proposed here that the financial crisis provides an opportunity to review the issue of the process of change in business systems as caused by the impact of ‘critical’ events. Using George Herbert Mead’s social interaction theory, the guanxi system is presented as a model of social-commercial interaction and the financial crisis is assessed as a stimulus for change. It is suggested that the theory of social interaction provides both a systematic explanation of the dynamics of the social order inherent in the guanxi system and a measure for the impact of the financial crisis as a critical event.*

## **Introduction.**

The Overseas Chinese *guanxi* system of social-commercial networks has proved to be a driving force for business growth across Southeast Asia (SE Asia).<sup>1</sup> (Redding 1997; Backman 1995; Limlingan 1986) and as a relational-based business system<sup>2</sup>, has fostered the growth of a distinctive configuration of market relations. (see Whitley 1992:13) However, the financial crisis of 1997-98 has led to a period of protracted decline in foreign investments and revealed how vulnerable SE Asian business systems are to global commercial forces. (Reynolds 2000:77)

Indeed, since the time of the crisis, there has been much criticism of SE Asian business and financial systems with the view that they were of themselves a fundamental cause of the crisis. (Aghevli 1999; Krugman 1998; Sachs & Radelet 1998; Taniuchi 1999) US Treasury Secretary, Robert Rubin, said that the SE Asian financial systems “lacked transparency, which masked the extent of the problem ...[and] the essential underpinnings to a modern financial system were weak or did not exist”. (Rubin 1997:2) Francis Fukuyama from George Mason University in discussing the influence of Asian values on the region’s economic growth and downturn, has gone so far as to suggest that the Overseas Chinese family business networks have become clearly dysfunctional. (Fukuyama 1999:2) Singapore’s Senior Minister Lee Kuan Yew, who had previously advocated the glory of the ‘Asian way’ of business management, in the midst admitted that the Overseas Chinese system of *guanxi* networking “is not compatible with the competitive free market.” (Sunanda 1998:4) While the breadth of this criticism questions the fortitude of *guanxi* business system to survive in the global economy, the significance of the financial crisis as a ‘critical event’ for change to the *guanxi* business system remains to be determined.

Previous studies of *guanxi* have described it as a social system of personal networks (King 1996; Dwyer et al. 1987; Weung 1999) and, as a business system, characterised by relationship-based negotiations, marketing strategies and commercial networks. (Whitley 1994, 1998; Min 1995; Limlingan 1986; Gummeson 1994; Buttery & Wong 1999; Luo 1997). The common feature, however, in the study of *guanxi*, is the appreciation of the cultural imperatives inherent to this way of life and commerce as arising out of Confucian philosophy (Hofstede 1997; Yeung 2000; Swierczek & Hirsch 1997; Whitley 1994). Max Weber (1951) has argued that Chinese business practices are rooted in the Chinese values of family and religion, and Hofstede suggests that the origin of the Chinese business management system arises out of the general principles of Confucian virtue and a social history of formal and informal networks. (Hofstede 1997:95) The culture and philosophical roots of the *guanxi* socio-commercial system would suggest that to change the system of business management would require a change to Chinese culture.

In assessing the influence of international and domestic forces of change in business environments in East Asia, Richard Whitley suggests that global commercial forces have not significantly altered the nature of the Asian business systems. Further, that incremental change, rather than discontinuous shifts, is likely to occur to business systems as a result of globalisation. (Whitley 1998:242,247) He has previously argued that: “Once a particular business system has become established and certain rules of the game are institutionalized, major changes in firm type and patterns of behaviour are unlikely to occur in the absence of substantial institutional changes.” (Whitley 1994:247)

There are a number of studies that tend to support Whitley’s argument and suggest that *guanxi* remains a strong business system and management process across E&SE Asia. (Menkhoff 1993; Foo & Grinyer 1995; Lou 1997; Ewing et al. 1998) <sup>3</sup> Yet, the financial crisis was no ‘ordinary’, or business-as-usual, event and did affect the institutional

structures of government administration and financial organisation. (Reynolds 1999: 12-15; Yeung 2000:2) Accordingly, the significance of the financial crisis for the Overseas Chinese deserves consideration as an ‘extra-ordinary event’ having a possible impact upon the *guanxi* system.

Taking a different approach to this issue of business system change, Halinen et. al. (1999) present the perspective of a punctuated-equilibrium model<sup>4</sup> and propose a network-change paradigm. They suggest that continuous or incremental change occurs in relationships and networks due to ongoing interaction but that discontinuous, or revolutionary change can occur from a ‘critical event’. The ‘critical event’ they define as “an incident that triggers radical change in a business dyad and or network” (Halinen et al. 1999:786) While a ‘critical event’ is ultimately open to interpretation by business actors as to what is critical and what is not, (Halinen et al. 1999:787) the test is whether the nature of the network is changed.

This study proposes that the financial crisis provides an opportunity to review this issue of the process of change in business systems as caused by the impact of ‘critical’ events. In acknowledging that there are several business systems operating in the SE Asian region, this study specifically focuses on the *guanxi* socio-commercial system of the Overseas Chinese of SE Asia. Using George Herbert Mead’s social interaction theory,<sup>5</sup> the *guanxi* system is presented as a model of social-commercial interaction and the financial crisis is assessed as a stimulus for change. The theory of social interaction provides both a systematic explanation of the dynamics of the social order inherent in the *guanxi* system and a measure for the impact of the financial crisis as a critical event.

Previous studies have noted the relational and interactional nature of *guanxi* (Buttery & Wong 1999; Amber 1995; Walters 1995; Gummesson 1994; Dwyer et al. 1987). But

Ambrose King (1996) in his discussion of the socio-cultural and religious character of Chinese social structure, moves beyond a recognition the interactional aspect of *guanxi* to present a sociological interpretation of the *guanxi* system drawing upon Mead's theory of social interaction in support. Admittedly, sociology is not commonly applied to an analysis of business systems. However, in accepting the premise of King's argument, the application of social interaction theory to *guanxi* is developed further in this study to provide an understanding of the dynamics of change in this peculiarly social and relational system of business management.

This study is structured to, first, review Mead's explanation of social interaction theory; second, and subsequently, present a model of *guanxi* as a social-commercial interaction model; and third, explore the 'critical event' value of the financial crisis for *guanxi* by testing it against the criteria of change for a social interaction model. The focus in testing the durability of the system lies not with a review of the size or the strength of the networks of *guanxi*, *per se*, but the nature of the interaction system itself. The distinguishing feature of this study is the presentation of *guanxi* as a social interaction model that has the means to deal with and accommodate change in a 'socially' understandable manner.

### **Social Interaction Theory**

Social Interaction theory has its roots in the work of writers such as Cooley, Dewey, Baldwin, and Mead, and in the German academic tradition of, 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 1969:xiv) Yet, it is the work of George Herbert Mead that remains foundational in the development of social interaction theory. Accordingly, key ideas in Mead's theory of social interaction are presented here in order to analyse the *guanxi* social system as an interaction model.

In review of Mead's best known work, *Mind, Self and Society*, (1934) we see that the starting point for Mead is society. Mead's thesis is that individuals are known and have knowledge or awareness of their 'self' as they interact in society. It is the interaction process of society that leads to the emergence of the awareness of self, and of the mind as that which encapsulates the process of thinking. Mead endeavours to "explain the conduct of the individual in terms of the organized conduct of the social group, rather than to account for the organized conduct of the social group in terms of the separate individuals belonging to it." (Mead 1934:7) It is society that is the dominant influence upon the thinking and action of the individual.

Mead's social interaction theory is built on the supposition that people are involved in a process of action and reaction, or reflexive action, with each other. Mead suggests that the social act involves two or more people in the communication of gestures, commonly experienced as language. It is when gestures take on meaning for others that they become significant symbols and constitute communication. It is through the use of significant symbols, especially language, that thinking occurs as "an internalized or implicit conversation of the individual with himself by means of such gestures". (Mead 1934:47) Thinking is the conversation of meanings and is the same as talking to other people. (Mead 1982:155). Mead Says: "It is by means of reflexiveness – the turning back of the experience of the individual upon himself – that the whole social process is thus brought

into the experience of the individuals involved in it.” (Mead 1934: 134) Mead constructs a theory of social interaction that incorporates the individual with their society.

It is as the individual becomes aware of the societal or collective mind that he/she is able to conceive of the expectation, communication methodology, and culture of society and of others. The individual develops a sense of self as “I”, and of others, or society, as a ‘generalized other’ or a ‘me’. The ‘I’ reacts and relates to the ‘me’ which is known or experienced as the “organized set of attitudes of others which he himself assumes”, (Mead 1934:175) while the ‘me’ is a “conventional, habitual individual”. (Mead 1934:197) It is through the awareness of ‘me’ as the “generalized other” (Mead 1934:207), that society dominates the thinking and behaviour of the individual.

Yet, Mead does not suggest that people are little more than conformist to the detriment of their individuality. Rather he introduces a dynamic of human interaction into his model. While humans are inherently social, it is the struggle between the awareness of ‘me’ as the voice of the generalized others as society – which calls out for conformity – and the awareness of an individual and creative self as ‘I’ that people are able to function as individuals within society. It is the interaction and interrelationship of the “I” over and against the ‘me’ operating as a dialectical process of logical ‘argumentation’ that makes change to society possible. It is this tension between conformity and argumentation that allows society’s organised intelligence to create solutions to problems and thereby evolve. It is in the process of organised intelligence seeking particular ends that “we have the evolution of the human mind which makes use directly of the sort of intelligence which has been developed in the whole process of evolution.” (Mead 1936:366)

In sum, Mead conceived of social life as consisting of people in association and interaction. People come to understand themselves as members of a society and pass on the meanings of their society to each other and to their young – a process of socialisation. (Rose 1962:3-15) Societies and their cultures are self-reinforcing because the individuals that comprise them are personal stakeholders in the maintenance and continuance of the system. Culture, social roles and social position might set the condition for action by shaping situations and providing a common currency for symbols, but it is people who act toward and interpret their situations. (Buckley 1967:145) Social systems, accordingly, are to be understood as self-regulating, self-directing and self-organising; in as much as it is agreement of individuals that maintain a system. Thus, social systems are not directly responsive to impinging external forces. Rather, says Buckley, as systems “become more complex there develop within them more and more complex mediating processes that intervene between external forces and behavior.” (Buckley 1967: 59)

### **Guanxi as an Interactional Model**

*Guanxi* (*kuan-hsi*) translates into English as ‘personal relationship’ and 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.



In China, *guanxi* has a broad application to family and social networks and it is significant that the nature or expression of *guanxi* varies from mainland China to that of the Overseas Chinese – referred to as the *Nanyang hua-qiao* or ‘southern sojourners’. In China, *guanxi* has broad application as people have wide and varied interests. In SE Asia, in contrast, *guanxi* takes on a particularly strong commercial quality for the Overseas Chinese arising from the context of having to survive in foreign and sometimes unfriendly environments. Consequently, as *guanxi* is strong in family relations in SE Asia, it is also strong in business negotiation and management and is fundamental to the Overseas Chinese business system. (Limlingan 1986; Buttery & Wong 1997; Foo & Grinyer 1995)

*Guanxi* is built on the precepts of Confucianism, which, as a philosophy of life and religion, is primarily concerned with social cohesion and presents the individual as a social being never isolated or separate from others. (King 1996:324) While the Japanese, for example, have a strong social system based on collective groups as seen with their strong family or employment bonds, the Chinese system is built on relations between particular individuals; father and son, husband and wife, buyer and seller, creditor and debtor. It is, however, important to note that the Confucian social order is not based upon social homogeneity or equality but differentiation. (King 1996; Luo 1997) 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. Thus, *guanxi* is the dynamic of human interactions of people within a differentiated society.

*Guanxi* is 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 *guanxi* business system, obligation and respect are based upon social and corporate positioning. Within a network there are ‘stronger’ and ‘weaker’ members. Stronger members have an obligation to give to weaker members, and in turn weaker members give respect and honour to the stronger members of the network. (Pye 1986). Buttery points out that: “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)

*Guanxi* networks of trust and obligation between people and families extend across the temporal plane of interaction but also the historical plane of family and personal relations. People are very much aware of their family and social histories and the links and obligations created by previous associations. While links and relationships can be broken – as people inevitably have disagreements – the objective is to build strong links in the chain of interrelationships and thereby create strong *guanxi*. The honouring of historical relations and obligation arises from the Confucian teaching on the respect for family and elders. It is vitally important to appreciate this feature of the *guanxi* system in order to understanding its stability and longevity. 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.<sup>6</sup>

As an ongoing process of human interaction, the *guanxi* system is best explained from the perspective of social interaction theory. First, the *guanxi* system, defines the boundaries and the rules for meaningful communication. The objective of business communication is to build a relationship by demonstrating integrity and a willingness to create and then honour obligations. Where this message is not communicated then business negotiation

breaks down. Second, it is a system of differentiated-order. In a society with stronger personalized presence of a ‘generalized other’, or ‘me’, social order is maintained by the common awareness and adherence to accepted business practice- albeit that treatment of people is prioritized and dependent upon social differentiation.

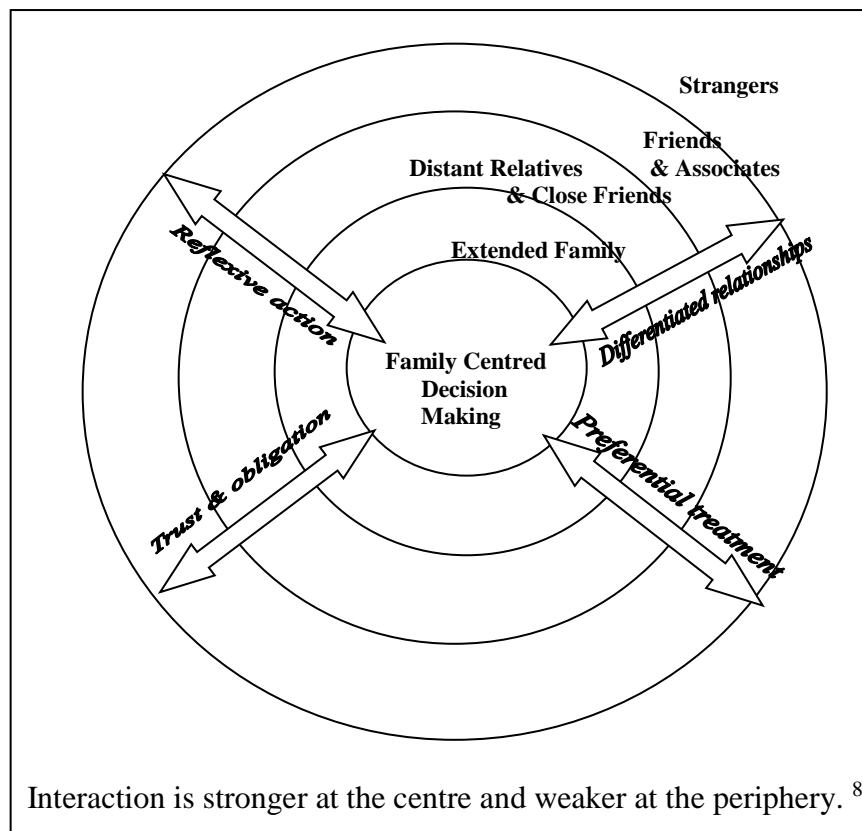
Third, *guanxi* is a means of enforcing social and commercial obligation. Strong social bonding and the awareness of position within a differentiated system mean that people are very sensitive to maintaining their social and business reputation and of saving face (*mien-tsu*). People are anxious not to be seen as avoiding their obligations. Alternatively, building good *guanxi*, by doing favours, providing discounts and expressing generosity, contributes to social reputation and status. Fourth, *guanxi* is a system relational behaviour. It is as the individual interacts and reacts with others in society that their action contributes to the process of ‘problem solving’ by way of adaptation and change. 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)

While the *guanxi* system has relational structure, such structure is self-imposed and quite fluid as hierarchical and formal links change with circumstance and opportunity. The *guanxi* system, accordingly, is not a model of function or formal relationships but better understood as a model of social dynamic or action. Indeed, *guanxi* is portrayed here as a model and at the same time a matrix,<sup>7</sup> of social and commercial inter-action or behaviour.

The *guanxi* matrix of social and commercial ‘action’ is represented here as a conceptual model in order to demonstrate the dynamic of socio-commercial inter-relationship and inter-action within the environment of cultural-religious imperatives. The elements of the model depict the parameters of symbolic interaction of the Overseas Chinese societies and

together define the system of social interactions of ‘meanings’ that are inherently part of *guanxi* social-commercial life. This conceptual model is firstly, a model of ‘meaningful’ interaction, and secondly a model of social-commercial behaviour, or inter-action.

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



### **Elements of the Model.**

#### **1. Family Centred Decision Making.**

While advancement and accumulation of wealth are central values to Overseas Chinese life and *guanxi* interrelationships, they are, however, essentially family values. The family functions as an economic unit and decisions about commerce are at the same time decisions about the family’s welfare. The family centred focus of Chinese family business

allows for one person to retain control while maintaining a highly personal nature of decision making. (Whitley 1994:63)

## 2. Differentiated Relationships

Business and social relationships are differentiated by the strength of relationship. The primary relationship for the Chinese is between father and son, and this is then extended to include other family members, then friends and business associates. 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. While status is met with respect and honour, it comes at the price, however, 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. This dynamic of strength-and-weakness, rich-and-poor interaction 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, a process known as *renqing*.

## 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.

#### 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 means 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.

#### 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 is the strategy of accepting lower profit margins and 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.

### 4. 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 are temporarily unable to pay cash, are not

embarrassed. For buyers, of course, the extension of no-interest credit is an added advantage to their business. It also holds advantages for the seller. In rejecting financial controls and financial reporting, the Chinese family business prefer credit management as a financial system.

## ii. Discounting

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 activity designed 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. As consumers want high-value products at a low price, so marketing requires more than low prices, it requires increased perception of product 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. The objective is to sell products to build a network through credit-obligation. 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 1997:54; Limlingan 1986:72) This marketing form of business by credit is used to extend or even establish a business.

## 5. Reflexive Action

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. (Ewing et al 1998) Accordingly, Chinese business relationships are very accommodating. Chinese business is very calculating. (Chu 1990) and while the centrality of wealth creation and making money means there is a constant search for a good deal, 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. This 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.

### **Critical Events and the Process of Change**

Halinen et al. propose that a critical event for a business network can be initiated by an internal event (endogenous factor), such as a change of personnel or entrepreneurial activity, or an external event (exogenous factor) occurring in economic, technological, political or social arenas. In the case of exogenous factor stimulus, Halinen et al. suggest that: “such change will be transformed into or at least combined with endogenous change through the networking process.” (Halinen et al 1999:781) In this way, the evolutionary process of change that is inherently part of the networking process is “punctuated by sudden and revolutionary changes.” (Halinen et al. 1999:785) While there are others (Tushman et al. 1985; Gersick 1991; Amburgey et al. 1993) that share this idea of network evolution, it is questionable whether the stimuli process of change for Anglo-American business and organisation networks are easily interposed upon the Overseas Chinese business- *guanxi* system. (Yeung 2000:3; Whitley 1992:13) The incongruence between the general theories on network change for business systems and the *guanxi* system exists because of the distinct social-cultural nature of the *guanxi* business system.

Two fundamental problems in applying the Halinen paradigm to the *guanxi* system can be immediately identified. First, Halinen’s proposal is built on the premise that a network is structured by primarily fiduciary and contractual relationships - usually commercial. There is a fundamental element of ‘mutual benefit’ that cements the network together. Where the

‘mutual benefit’ of the network is threatened, diminishes or changes, the network, and the strength of the network, changes accordingly. It follows that a ‘critical event’ is that which radically changes or destroys the benefits of the network inter-relationships.

The stamina of the *guanxi* network system, however, is not to be judged by its fiduciary benefits but rather by its processes of social bonding or integration. While there are, of course, benefits, both tangible and intangible within the *guanxi* system to be gained from the social-commercial interaction, they are not necessarily short-term, financial, or direct. Not all transactions and interactions are conducted with the view of personal gain or benefit. In a study of 123 Overseas Chinese businesses in Brunei in 2000, 60% of businesses were prepared to give price discounts of over 40% to people in need.<sup>9</sup> In giving discounts to the poor and needy, clearly, the business transactions were not fiduciary and the benefits commercially mutual. Accordingly, it is suggested here that in reviewing the impact of the financial crisis upon the *guanxi* system, economic and benefit criteria, as criteria for change, are not universally applicable.

Second, Halinen et al. suggest that the critical event is a stimulus for change to the nature of a network but it is not how ‘critical’ an event may appear that is of importance, it is how the parties of a network react to it that determines its real impact – to the structure of the network dyad. (Halinen et al. 1999:786)

This idea that a critical event is determined by the perception and reaction of network stakeholders seems a rather arbitrary and subjective criteria for measuring change in a fiduciary network community and is inadequate in providing insight into the process for change to a business society. Accordingly, and as an alternative, Mead’s presentation of

societal change process and his criteria for change provide a means to better comprehend the significance of an exogenous critical event to the *guanxi* business system.

Mead sees change as essentially social progress. He believes that the ‘modern’ society only has boundaries in as much as “the individuals implicated in it” (Mead 1934:294) conceive and create such boundaries. Social progress has no fixed or determined ends or goals, but is sufficiently flexible to cope with social conflicts or tension and change accordingly. Social change, for Mead, is a process of social evolution by adaptation. It occurs as a process of problem solving. Mead says: “...problem-solving thinking is the socially acquired means or mechanism or apparatus whereby the human individual solves the various problems of environmental adjustment which arise to confront him in the course of his experience.” (Mead 1934:308) If the individual doesn’t change, however, then the ‘problem’ is solved without societal change. Social change does not result from the size of a exogenous critical event, the change in the mutual benefit, the perceived importance of a critical event, or the strength of the fiduciary relationship, but only occurs as individuals, which comprise a society, themselves change.

Accordingly, Mead does not see social evolution as a single uniform process but as a diverse set of ways of solving problems. Evolution will take different forms for different societies depending upon local conditions. These different forms of evolution are shaped by their adaptation to those conditions. Human society evolves as individuals evolve in the direction of greater adaptation to their environment. (Thus, evolution to a new-*guanxi* is reasonable prospect.)

In explaining the dynamic of social evolution, Mead suggests that there are 2 ‘universals’, or principle areas of social life – the one economic and the other religious - in which social

change occurs. The economic process brings individuals and groups together for commercial gain. The religious process - taken here to encompass the value systems and culture beliefs of a society – unites people in common interest and common ideals. While the economic process brings people together for trade, Mead suggests that it is a superficial process that can be readily created and transported and makes for easy communication. In contrast, the religious process “takes you into the immediate inner attitude of the other individual” and involves the identification of an individual with others. (Mead 1934:296-297) These two social processes create community as integration brings individuals closer together resulting in social growth and evolution. (Mead 1934:281,297)

While the financial crisis was an economic event, for it to be socially significant, it also has to be seen as a community crisis-event – one that impacted the community and the community’s value system. In addressing this issue of how societies deal with crisis and threat, Mead refers to the experience of war and describes how people unit against the common enemy and forego their divisions and varied interests. (Mead 1934:306) It is this context of the social impulse of self protection that appeals to nationalism are successful and take root. Indeed, in the midst of the crisis, Prime Minister Mahathir of Malaysia took the opportunity to criticise Western business interests for seeking their own interests at Malaysia’s expense. [Samad 1998:1) In this way, the Malaysian leader sought to alienate the financial crisis choosing to see it as a non-community event and thereby reduced its social significance.

Yet, Mead sees conflict and contradiction not as necessarily destructive but as an inevitable part of the interaction process leading to problem resolution and even new forms of consensus. As there is a juxtaposition between the “I” and “me”, so there is

always a tension between the need to conform and the need to innovate and change. (Cronk 1987:3; Ritzer 1999:384) Thus society exists in a state of dialectical “thinking” as individuals interact with each other and society – in a real and ideal sense. This dialectical thinking, or social reflective intelligence, is an ongoing assessment of both fact and value – where facts, like the financial crisis are ascribed value. It is this environment of tension between the mind, self and society that characterises social interaction as a dialectic process. It is, however, important to note that this dialectic is not confined to present events and interactions but incorporates both the community’s memory of past events and their cultural values as well as the community’s ideals and perception of possible future events. Thus, a current event is judged for its significance by the values, relationships and experience of the community over time.

### **The Criteria for Change.**

For the relational based, socio-commercial community of the Overseas Chinese the perception of an event as critically significant is derived from an event’s social meaning. Indeed, Mead’s social interaction model rests on three principles of meaning interpretation: first, that individuals act, interact and react to objectives, people and events on the basis of their meaning. Second, that such meanings arise from inter-action with others as others (the community of the past, present and future as experienced as ‘me’, or the ‘generalised other’) determine the meaning of a thing. And, third, that the individual in the experience and knowledge of the ‘generalised other’ enters into an interpretive process of the meaning and value of a thing – a process of reflective intelligence. Thus, the question of ‘criticalness’ or ‘significance’ is first a question of meaning.

Accordingly, for social change to occur as a consequence of a critical event, three criteria need to be met: First, that an event is perceived to have meaning and impacts the meaning construct of the individual: A society will only change as the individuals that comprise it bring about change. Second, that an event impacts the value (or meaning) system of the community and questions the continued validity or relevance of values within the system. And third, that an event calls into question the current practice and social fabric or network of the community. In assessing the financial crisis a critical event for *guanxi*, it needs to be asked whether the conditions of one or several of these three criteria will have to be met.

In addressing the first criterion, that of the perceived meaning of the crisis for the Overseas Chinese communities, the general reaction was to reject the crisis as having little to no value and meaning to the *guanxi* socio-commercial system: It was a hardship brought on by others. This was not only a rejection of Western business activity, but also of SE Asian government activity (in Thailand, Malaysia, Indonesia and the Philippines) as foreign or alien to the Overseas Chinese way of social commercial life. As foreigners themselves<sup>10</sup> within SE Asia economies, the Overseas Chinese have a history of establishing their own social and commercial networks and generally view governments and their institutions as alien and often hostile to their communities and culture. Respect for government authority and social responsibility outside of their family networks is not common among the Chinese or Overseas Chinese, excepting in Singapore. The Chinese maxim: “The heaven is high, the Emperor is far away”, is indicative of the Chinese sense of independence from rules and authority. (Chu 1990:193) Consequently, while bank credit has been hard to acquire and business poor since the crisis, (Deyo 2000:4) people have sought to utilise their relationship networks to cope with the stress that the crisis

brought. Relationships and the cultural philosophy of business-by-relationships, was not directly threatened.

In answer to the second question of the impact to the value system of the individual in community, the rejection of the crisis as of foreign initiative was coupled with a rejection of Western ideology as problematic for SE Asia and SE Asian business. Richard Higgott suggests, and Jeffrey Garten seemingly agrees, that the financial crisis expressed the difference of ideology between Asian and Anglo-American ways of organising capital production. Both warn of the resistance and resentment toward Western pressure to accept global financial liberalisation. (Higgott 198:12; Garten 1999:77,82) In times of hardship and external threat, Mead suggests that the self-protective impulse of individuals unites them against a common enemy and the community becomes stronger. (Mead 1934:306) As the financial crisis did not address the fundamentals of this cultural-religious value system but tended to unit the community, it was not critically significant as a change event to the individual or the community.

The area of greatest impact, however, is to be seen in the area of the third criteria and found in the challenge made by the financial crisis to the current business practice of the *guanxi* social-commercial system. While *guanxi* is noted for its strength as a social-commercial network system, the problem in cultivating such networks and personal ties is the possibility of corruption that goes with it in the form of bribes, illicit negotiation, nepotism and fraud. Corruption has been widespread across SE Asia, especially at the level of corporate finance and politics, and although not exclusive to the Overseas Chinese, has been seen as a fundamental reason for the financial crisis. (Backman 1999, Fukuyama 1999, Rubin 1998, Taniuchi 1999) No doubt, old habits will die hard but

continued international pressure for transparency and prudential management mean that corruption and connections to networks with bad reputations will no longer be acceptable.

However, it is not only the corporate giants that are experiencing the associated problems of family-centred business system. There is growing pressure across all levels of Overseas Chinese business to become more ‘professional’, including small family businesses with their habitual cash accounting. In changing the current practice to suit the demands of the growing global economy, the *guanxi* system is experiencing an era of accelerated evolution.

### **A Problem to be Solved for Guanxi**

Social interaction theory proposes that revolutionary change is only to be differentiated from evolutionary change in as much as it is a more extreme and immediate form of the process of evolutionary social problem solving and adaptation. In either case, social change involves a process of rejecting present practice in favour of creating a new practice as a synthesis of past experience and future ideal (opportunity). Mead suggests that it is common to find the economic universal and the religious-cultural universal in conflict and that there is an ongoing process of social correction: (Mead 1934:295) Remembering that for social change to occur economic events have to take on religious-cultural significance. Accordingly, the financial crisis is to be understood as an event to be assessed, as part of a series of events that effect individual and social behaviour.

It is suggested here that the *guanxi* social-commercial system will change, or evolve, as key actors (individuals) influence the collective ‘thinking’ of the society. In accepting the



interactional nature of Overseas Chinese social commercial system, there is a case to be made for the gradual change of *guanxi* business due to continued interaction of key Chinese actors with global actor networks. Change will occur not so much because ‘foreign’ political and commercial forces would demand it, for Chinese communities have survived such threats for centuries, but because of growing opportunities and developing relationships with other key actor networks. Indeed, it will change when and where individuals see the benefit of the change to social-commercial practice. Societal change will occur as key actors change their behaviour first. It is important to remember, however, that because of the cultural-religious nature of *guanxi*, change is not only a matter of behavioural change, it is essentially a change to the ‘self-concept’ or ‘self-definition’ of the society and its people. Thus, change will be moderated by history, opportunity, and self identity.

I suggest that, social change to the *guanxi* system will occur by a process of individual and collective *perceived-benefit adaptations* – where ‘perceived benefits’ are defined as ‘social rewards’. In acknowledging that there is an aspect of conflict-avoidance in the *guanxi* system, the underlying stimulus, or reasoning, to social behavioural change in the Overseas Chinese societies is the desire to gain better outcomes and culture-laden personal benefits. As evolution is understood as arising from diverse ways of solving problems – and so takes on different forms – *guanxi*, as a relational-business system, is likely to evolve in several different ways at once dependent upon the pathways of opportunity. The significance, or ‘criticalness’ of the event of the financial crisis is not to be found in its devastation, as such, but in the individual and collective *perceived-benefit* of finding other means to conduct business and build relationships.

With reference to the Conceptual Model of *Guanxi* Interaction, change stimuli arising from a major event will not change the elements of the model, except by degree. Again, the elements of the model are parameters or representations of symbolic interaction and the cultural-channels of ‘meaningful’ interaction within the Overseas Chinese societies. Because the elements, or modes, of the Model are inter-relational, the ongoing dynamic of problem solving and adaptation will lead to an emphasis of some behaviours over others, or creation of new ones, as there is perceived need or advantage to do so. While the Model demonstrates the interrelationship and interaction of the social and commercial dynamics of the *guanxi* system, as Mead points out, it is only when an economic event has meaning for the social-cultural dynamic of a community that it is a stimulus for change. While the practice of *guanxi* may change because of global emerging opportunities, the dynamics of flexibility, filial piety, preferential treatment and social differentiation will continue to characterise the *guanxi* system. The question is one of adaptation – how will *guanxi* adapt to the forces of global commerce and regulation?

I suggest three examples of *perceived-benefit* adaptations taking place in the Overseas Chinese communities arising from emerging opportunities. First; the reduced need for the family network support system to carry the success of the business. Where networking has historically provided an environment of reduced risk for Overseas Chinese business, improvements in commercial regulation and law, along with extended global business and financial opportunities, mean there is less need to do business only within the Chinese community. Where *guanxi* business developed community support systems, especially chambers of commerce, improvements in opportunity and service provision, have reduced the need for such supports and networks. Traditionally, trust of friends and mistrust of strangers brought security to family business operations in the midst of unfriendly environments. But the opportunities of negotiating business with people and companies

across the globe and across the region, mean that mistrust of strangers and dishonesty in dealing with strangers is not acceptable and will have to change as a business practice.

Second; the development and acceptance of global business knowledge. The domination of top business schools in America and Western Europe (Thrift 1998) has led to the general acceptance of professional business practice, world-wide. It has also led to a general acceptance that the family business heir-apparent should be educated in the West and at a respectable university. The consequence of this is the potentially widening of business associations or networks through business school friendships. But it also means that the professionally trained heir-apparent is likely to return home with vastly different ideas on business management than practiced by their family. (Fung 1997)

Third; growing trade opportunities. Access to global markets can be seen as providing new opportunities for extended interaction and network building for the Overseas Chinese. John Naisbitt has argued that future development in global trade will be dominated by networks and that the Overseas Chinese will play a central role. (Naisbitt 1995) Their common culture, language and business system enable Overseas Chinese entrepreneurs to develop networks that transcend borders. Far from becoming redundant, the *guanxi* business management system may evolve to become stronger. While information sharing, for example, has always been an important part of *guanxi* business networking, in the information era, the willingness and ability to share information is a competitive advantage.

Evidence As businesses seek to strengthen and extend their existing markets particularly across the SEAsian region, gaining access to new resources and capabilities, and alliance building (Backman 1995:6; Akyuz et al 1998:50) speak of an extending opportunity for *guanxi* business growth and increasing global business integration. Again, while *guanxi*

may adapt to emerging regional and global commercial markets, it will do so in response to *perceived-benefit* opportunities.

## **Conclusion.**

Mead's social interaction theory has been presented here with the objective of providing an alternative and systematic means to assess the impact of the financial crisis and its aftermath on the Overseas Chinese business system in SE Asia. The leading question to this study was to ask if the financial crisis has been a critical event for the *guanxi* socio-commercial system of the Overseas Chinese. This question has been addressed by asking another: Did the financial crisis translate as being significant for religious-cultural universal of the society?

Mead would suggest that it is not 'critical' events that impact socio-commercial systems but significant conversations. In raising the issue of whether external (exogenous) interactions can affect a society, Mead suggests that the question is essentially whether 'we can carry on a conversation in international terms?' (Mead 1934:271) Kipling said that 'East is East and West is West, and never the twain shall meet', but they are meeting, says Mead. (Mead 1934:271) He believes a process of reorganisation is going on underneath our conscious experience and that as this continues societies are being brought closer together. As interaction brings understanding, it will create 'international mindedness'. (Mead 1934:271)

The implications for business managers in recognising a 'conversation' paradigm, as to a 'critical event' paradigm of business system change, are quite profound: First, it allows for a distinction of meaning-systems to be made between the Overseas Chinese *guanxi*

business system from the Anglo-American and European business paradigms – with their focus on shareholder value and stakeholder value respectively. (Reynolds 2000: 74; de Woot 2000:15) A review of the *guanxi* social interaction model demonstrates that “conversation” requires not only the sharing of common language, but a sharing of common meanings as ‘conversations’ (interactions) take on socio-cultural-religious value. That is, this socio-cultural and religiously motivated system will only change as conversations are seen to have significant socio-cultural meaning. Thus external conversations, like internal conversations, are all interpreted for their meaning-value in the socio-commercial system. I suggest that cross-cultural interaction and negotiation requires an appreciation not only of a society’s different language but the fact that their language represents the different system of meanings inherent in that culture.

Second, it allows for further understanding of socio-commercial change as international actors interact and adapt to one another, and the opportunities before them, by way of meaning-value conversations. Gordon Redding has suggested that the complex business culture of the Overseas Chinese remains an enigma to many observers, but its increasing influence across the region means that an understanding of it has become crucial for those developing business strategy for the Asia-Pacific. (Redding 1997:452) Accordingly, in accepting the contribution of social interaction theory in explaining the *guanxi* system, further research of interaction patterns, with their dynamics of meaning and ‘conversation’, would help in the understanding of the evolution of business systems but also in inter-cultural and inter-business relations.

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## Endnotes:

<sup>11</sup> South East Asia (SE Asia) is used here to denote the ASEAN economies, particularly the ASEAN-5 leading economies of Singapore, Indonesia, Thailand, Malaysia and the Philippines. The term 'Asia', is used to refer to the wider region of East and South East Asia, excluding China and Japan.

<sup>2</sup> Walter Buckley defines a system as "a complex of elements or components directly or indirectly related in a causal network, such that each component is related to at least some others in a more or less stable way within any particular period of time" (Buckley 1967:41) A business system is here defined as an identifiable pattern of structures, relationships and practices that make a business a cohesive organisation and form the basis of its interrelationships with others. Thus, a business system incorporates groups of businesses that share these patterns and interrelationship practices. A business management system is, therefore, the "planning, organising, staffing, directing and controlling" (Drucker 1973) of business relationships and networks. A business management paradigm, or model, is the conceptual expression of the principles of the organisation's behaviour.

<sup>3</sup> Studies by Wong in Hong Kong (1997), Menkhoff in Singapore (1993) and Foo & Grinyer in studying Chinese companies across ASEAN, (1995) suggest that *guanxi* and Chinese traditional business practice are seen to remain strong. In a study of the relationship between *guanxi*-based business determinants and the performance of foreign-invested enterprises (FIE) in China, Yadong Luo found that *guanxi* had a positive role in influencing FIE performance. (Luo 1997) Similarly, Ewing et. al., (1998) in a study of the 158 Singaporean exporters to China linked the use of *guanxi* networking to business performance and believe that the results can be generalized to applied the Overseas Chinese in South East Asia. (Ewing, et. al. 1998:8)

<sup>4</sup> The punctuated equilibrium model proposes that an organisation experiences infrequent revolutionary shifts in behaviour in response to dramatic environmental or relational events. (Halenin et al. 1999:785, Anjali 1997:2)

<sup>5</sup> Social interaction theory explains how individuals act and react in society, where society and culture are understood as the cumulative expression of these interactions. The conduct of the individual is explained in terms of the organised conduct of the social group. This theory is explained in more detail in this paper.

<sup>6</sup> The process of negotiation and relationship building is important in conducting business with the Chinese, in contrast to the Western emphasis on the moment of exchange. (Gummesson 1994:31-44) For the Overseas Chinese, 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)

<sup>7</sup> A matrix is here defined as the structural portrayal of the inter-action of a network of interrelated component parts – as groups, families or individuals - in communication and relationship within a recognizable cell, or society.

<sup>8</sup> This model is derived from interviews with business people and academics across Southeast Asia over a three year period from 1997 to 2000 made possible by a research fellowship from the EU-ASEAN Management Centre in Brunei. The results from a marketing survey of price discounting and preferential treatment among 123 Chinese businesses in Brunei (see footnote 6) have also been instrumental in the design of this model. Interview material and survey results were then tested against a general body of literature on *guanxi* business behaviour.

<sup>9</sup> With the assistance of the Chinese Chamber of Commerce in Brunei, I conducted a study of 123 Chinese businesses were surveyed (39% in retail, 37% in services, 12% in wholesale, 6% in manufacturing, and 6% in construction) to test the degree and nature of preferential price discounting and the degree of relationship marketing – or *gunaxi wang* – practiced by these firms. Four matters were surveyed: Pricing Objectives; Pricing Strategy; Factors Influencing Pricing Strategy; and Price Preferencing. Philip Kotler's list of pricing

<sup>10</sup> The 'southern sojourners' (the Nanyang hua-qiao) were mostly from coastal regions of south-eastern China, principally Guangdong, Fujian and Hainann.