

Guanxi: Networks or Nepotism?

The dark side of business networks

Abstract

This paper examines the ethical dimension of using gifts to establish social networks, applying the predominantly Chinese concept of ‘guanxi’ - a practice which may lead to personal and/or corporate gain. Guanxi refers to a network of personal and social relations that is characterized by specific ethical and instrumental dimensions, embedded in social and moral norms and founded on a traditional Confucian philosophy. Social contextuality seems to be more relevant for its ethical acceptability than a precise moral defined threshold. To what extent can possible gain or profit from guanxi be considered as 'ethical'? The answer lies in understanding the fine line between socially appropriate and a-social networks. Social networks such as guanxi transgress in a form of nepotism when emotional and moral obligations in interpersonal relations are ignored in favour of pure instrumental [calculating] exploitation of networks for personal gain. When the cultural ritual of guanxi, based on strong Confucian moral values, degenerates into a rent-seeking guanxi, an appropriate network loses its ethical edge as it turns into inappropriate behaviour, and allows itself to be corrupted. Networks then become ‘nepotistic’ or corrupt.

Guanxi: networks fuelled by gift practices

Within socialist or ‘guided’ nations, the establishment of corporate operations on a neo-classical capitalist basis has posed a wide range of obstacles and challenges which need to be addressed in striving to maximize value of such corporations. This is evident

in Vietnam and China but also in Indonesia and Thailand, all facing serious socio-economic challenges since they are all tainted by high levels of corruption. Quite a number of 'overseas' Chinese and indigenous (*pribumi* in Indonesia and Malaysia) businessmen or entrepreneurs practice the useful strategy of constructing social ties with individuals who can facilitate the process of investment or help secure favourable contracts. Such network strategies primarily rely on social guarantees and relationships that can dramatically speed up a process and may increase the odds of securing contracts but usually at the cost of legal guarantees or judicial boundaries.

It has been argued that such 'bamboo network' strategies have, no doubt, led to amazingly quick economic growth in these countries, but have also proven to sow the seeds of their downfall as the financial crisis afflicting most ASEAN countries has demonstrated (Pye, 1997). China and Vietnam were spared this crisis, largely due to their fixed exchange rate policy rather than to a macro-economic efficiency or superior effectiveness. Because of the ambivalence of (bamboo) networking, the challenge is to examine some subtle differences in order to draw a fine line where network turns into nepotism, or why this ambiguity might nurture some type of nepotism.

Networking and bonding refer to a natural human tendency to relate to one another. Hence, giving gifts as a form of establishing alliances, bonds and networks is a prevalent practice in most traditional cultures (Mauss, 1954). Likewise, the jostling for an advantageous position in social relationships and networks has been a predominant way for Asians to survive in their communities (Verhezen, 2002) aside from gaining a competitive advantage in business. Lately, no issue incites such heated debates as nepotism, collusion and bribery in the Asian media and business courses. Many seem to suggest that gifts, networks and their less benevolent expressions are indeed cultural phenomena that could be justified as acceptable. However, it could be argued that gifts and networks are found in most cultures where they are clearly distinguished from practices such as bribery¹ and nepotism² respectively. Gifts may not necessarily be considered bribes if they are understood as non secret and integral to the relationship, unless it is a means to attain immediate instrumental goals. Bribery connotes a wrongful transfer of resources between parties. Similarly, nepotism implies a misuse of relationships between parties. The core of this analysis is to distinguish socially and

morally acceptable networks from unethical though prevalent nepotism in the realm of Asian business. Networks are characterized by an inherent ambiguity that continuously shifts the meaning and moral relevance of the notion. By analyzing the different interpretations of 'guanxi', it is hoped that a fine line can be drawn which can mark an appropriate network from improper use of nepotism or clientelistic relations.³

Social connections and personal relationships – or guanxi as they are known within the Chinese community – are established and enhanced by gift exchanges that conform to what can be observed in the logic of the gift (Verhezen, 2003). Deeply rooted in the Confucian Chinese tradition, guanxi involves relationships between or among individuals, creating obligations for continued momentum of exchange and established trust and credibility. Revealing is the fact that quite a number of scholars agree that guanxi cannot be founded merely through the one-time payment of a coarse bribe (Dunfee *et al*, 2001).

Gift giving, while philosophically speaking 'having some self-interest', must appear not to be so if it is to have the intended effect. Gifts complying with unwritten rules of reciprocity can be perceived as an expression of acknowledgment of membership in a network of personal relationships, known in Chinese as 'guanxi'. That the use of gifts could and would lead to personal (or corporate) advantages is well understood and accepted as long as it is contained within social and ethical boundaries. As expressions of recognition and gratitude, gifts reflect a form of 'social contract dynamic'. Usually expressed as respect for another person such gift practices are bound by specific public rituals – as in the Mandarin '*li*' that refers to socially proper conduct, or forms of courtesy and rules of moral legitimacy that strengthens relationships.⁴

Although gifts in traditional guanxi indeed reflect the relative wealth of the parties involved, they are one of the ways to nurture relationships and to strengthen trust, commitment and reciprocity. In a situation where there is a pervasive distrust of the legal and political system, the consolidation of social interaction and relationships built on gift exchanges serve to provide a "substitute form of trust that can improve the profitability of investment and reduces the risk of arbitrary bureaucratic interferences that is not in the interest of the investors" (Smart, 1993: 398).

Guanxi is built through the exchange of gifts, favours and banquets, and as such its art lies in the skilful mobilization of moral and cultural imperatives where the pursuit of social ends and calculated instrumental ends will be diffused by a sense of obligation and reciprocity (Yang, 1994). Sometimes one clearly distinguishes “expressive ties” from “instrumental ties” as where the former is related to families and kinship and the latter to business guanxi (Fan, 2002). Although a relationship may be cultivated with some instrumental goals in mind, some culturally specified forms must be conformed to if these goals are to be achieved. Guanxi or any expression of functional network for that matter is dependent on strict rituals and rules, which regulate and aim at some form of impartiality. However, it is clear that gift giving can be used to establish networks of particularistic ties that has resulted in the presence of a gift economy parallel to the state redistribution system, especially within transition economies. Thus, it is predominant that the relationship is presented as primary and that the exchanges, useful though they may be, are treated as secondary. If, instead, it becomes apparent that the relationship involves only material interest and is characterized by direct and immediate payment, the exchange is classified as one of bribery, or possibly a pure commercial exchange. Manipulative and exploitative use of gift exchange is inevitably made possible by deviating from genuine gift exchanges that attach priority to the social or personal relationship to the immediate instrumental objectives of the corrupted gift.

Guanxixue, the practice of building such networks, is morally neutral but in everyday life, it implies both high moral principles and petty calculations with ethics and tactics coexisting in tension and in harmony - a coexistence expressed in the choreography of guanxi etiquette (Yang, 1994). Guanxixue connotes ‘human sentiments’ – *renqing*⁵ – referring to friendships and long-lasting personal relationships, and customarily of people helping one another. Indeed, guanxi (networks) and *renqing* (ethics) are characterized by moral obligations (Geaney, 2004) and emotional attachments in interpersonal relations, and by a stable mutuality of cooperation between people within these networks. Hence, the power of *renqing* or the pressure of its moral force is such that it is very difficult for a community member to decline a request for help or to fail to repay a debt of *renqing*. The discourse of guanxi and *renqing* obligations may be situated in the cultural unconsciousness, the *habitus* (Bourdieu, 1994, 2000) of a

community through which norms and values are expressed. But, other less benevolent forces may be at play behind the accepted cultural expressed features of *guanxi* and *renqing*.

Networks as in Chinese 'guanxi' serve as a means to signal trust and credibility in societies with weak formal rules of accountability and where social and economic exchanges are barely embedded in strong institutions. Hence, the informal network of *guanxi* may be seen as a substitute for the rule of law, which was its initial *raison d'être*, or it became an effective alternative in environments where the rules of law are rarely implemented or enforced. Even Lee Kuan Yew, the founding father of Singapore, would have admitted that the Chinese use of *guanxi* is "to make up for the lack of the rule of law and transparency in rules and regulations" (Dunfee *et al*, 2001:197). *Guanxi* is still relevant in the context of Chinese businesses because it mitigates external political and socio-economic risk: it navigates opaque bureaucracies; it copes with the absence of a rule of law; it accesses reliable information, resources and infrastructure, and it recruits trustworthy, i.e. well connected, employees (Arvis *et al*, 2003).

Participants, relying on a *guanxi*-based approach are sufficiently acquainted with one another through those ritualized gift practices, could provide a competitive advantage vis-à-vis foreigners in the absence of well-developed financial markets and unknown markets where one could scarcely count on the support of any other reliable institution. However, while networks may provide a certain degree of access, they also may pose a peril of non-merit and consequently of inefficiency in terms of micro-economic analysis. *Guanxi* could easily become inconsistent with the idea of efficiency or performance merit; meaning that many people are hired for jobs, not on the basis of their individual merit, but rather on the basis of their lineage or connections.

Although the fine line between gift and bribery is often blurred, in almost any cultural context specific criteria can nonetheless apply to clearly distinguish a gift from a bribe⁶. Similarly, it is logically possible, despite the notion's inherent ambiguity, to distinguish networks from nepotism although in reality reading the real intentions of the actors and making this judgment is far more difficult.

A simple acid test to judge whether *guanxi* are considered ethical is to determine if there are victims resulting from *guanxi* relations. In other words, a *guanxi* practice is

ethical only if it causes no harm to a third party or to society as a whole. Examples of victims would include competitors or customers, or even undetermined stakeholders. If a guanxi action adversely affects a third party while the guanxi transaction produces gains for individual agents (even firms or principals) while inflicting loss on society as a whole by overriding the fairness of competitive rules⁷, one cannot ethically justify such a guanxi transaction. According to Confucius, whose teaching still play a major role on the daily social interaction among Chinese, one should put moral concerns before the pursuit of business interests (Fan, 2002). If the Confucian emphasis on ‘*wah*’, or social harmony, disintegrates, some individuals will be able to take advantage and benefit to the detriment of social balance. When guanxi becomes a pure exchange, a degradation process of displacement and a process of commodification enter the relationship. This is why business guanxi has gained such a notorious reputation, inside China and abroad.

When guanxi commoditizes into a shadow of money exchange only, the network degenerates into its corrupted form of nepotism and clientelism. Through a process of displacement, the direct payment of money trivialises and degrades the practice of guanxixue to monetary compensation in certain contexts (Yang, 1994). When the ‘exchange value’ of guanxi and its gifts overrides the ‘use value’, a process of commodification starts to undermine the underlying social and moral norms of guanxi networks and departs from the old Confucian non-monetary objectives for cultivating guanxi.

Networks or ‘guanxi’ as Social Capital

If the notion of ‘Social Capital’⁸ is indeed a form of capital – a set of actually usable resources and power – then it may be equated with a form of power that can either be used to influence others’ behaviour, or to aid in achieving desired goals. The late French social thinker Pierre Bourdieu defines Social Capital as “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition, [functioning as] a credential which entitles them to credit, in the various senses of the

word”(Bourdieu, 1986). Social Capital is almost always a potentiality: once cashed in, it becomes something else, e.g. economic capital or profit. ‘Social capital’ refers to a network of individuals as in ‘guanxi’ that may result in certain forms of capital and profit. Social capital, then, includes obligations of reciprocity - though not in its legal nor even in its economically enforceable sense - with the advantages derived from connections or social hierarchy, and the presence of a presumed trust. These obligations and connections in business are the result of investment strategies by businessmen and entrepreneurs, who consciously or unconsciously aim at establishing or reproducing social relationships that are directly usable in the short or long term (Bourdieu, 1986).

According to this definition, guanxi is a form of ‘social capital’ that aims to amass symbolic capital, a phenomenon which takes the form of ‘face’ in China and for that matter throughout most of the Asian world. Someone who has a reputation for having a great deal of face and thus influence in networks – i.e. social and symbolic capital often resulting in economic capital – can use it to accomplish a great deal. The more social, symbolic or economic capital is at his disposal, the more powerful is his socio-economic or influential standing. Interesting is the fact that the emphasis on the instrumental ends of a relationship rather than the cultivation of a relationship itself does not affect either social or symbolic capital. Indeed, it is the manipulation of proper relationships and networks that can cause “loss of face”, and thus, decreased symbolic capital. One should bear in mind that a ‘gift’ when translated in Chinese Mandarin is ‘*liwu*’, where *wu* refers to the ritual gift object and *li* equals reciprocity in social intercourse. The Chinese term indicates that a gift is more than a material present; it carries cultural rules and properties and involves some strict rituals (Yan, 1996: 44). So, a *wu* without *li* is merely a thing or item, not a gift. Hence, a gift object that is handed over and that fails to enhance a relationship of reciprocity is degraded, becoming a pure instrumental bribery exchange, and accordingly does not function as part of the guanxi rituals *in se*.

However, an emphasis on the instrumental ends rather than the cultivation of relationships does not support the increase of either social or symbolic capital. Nevertheless, businessmen are advised to subordinate immediate interests for the cultivation of a relationship to create a resource that can be repeatedly utilized over the long term, yet does not cause the donor to lose face despite the lack of subtlety of his

blatant manipulation. Although the gift – ambiguous as it is – attaches priority to the relationship, it can be easily manipulated or exploited, and end up as a bribe. Under Confucian rules and in the absence of a rational-legal framework, officials - assumed to be of good, i.e. virtuous, character - judged each case on its special merits. Confucius repeatedly stresses the pivotal role of exemplary persons whose behaviour can have an impact on the whole of society. He seems to emphasize relations where its individual is subordinated to the ‘*li*’. This ritual propriety for Confucius dictates to an individual how he/she should behave toward his/her family, friends, superior, and others in society (Sim, 2003). The focus is not on an individual *per se*, but on the social relations. Confucius goes so far as to assert that playing one’s role in society will bring an effective government. In traditional Confucian China, moral learning through role modelling was preferred to penal law (Snell *et al*, 2001). Moreover, the notion of a civil society characterized by institutional checks, balances, and accountability remains underdeveloped.

The economist Vito Tanzi claims that the net social capital of individuals is likely quite unevenly distributed. Similarly, social capital unevenly plays a large role in determining the distribution of income within countries. Hence, the evidence of social capital is likely to interfere with arm’s-length relationships - or professional behaviour complying with transparent codes of conduct - and, in particular circumstances may lead to corruption. In societies where family or other kind of relationships are very strong, and where existing moral or social codes require that one helps family and friends, then the “Weberian type of ideal bureaucracy” (Tanzi, 2000) will be very difficult to install. This does not contradict Confucian’s insistence on honesty of the public tax collectors and government officials to preserve the functioning of the (quite hierarchical) system. It is the moral sense of the majority of the officials and the people that is relied on to bring about the successful conduct of government work and maintenance of order (Fernandez, 2004). Hence, one could hypothetically argue that the health of a nation is not measured by the possession of material goods but by her sense of justice. A society with no lawsuits, no need for punishments, is a society ruled by virtue.

The reciprocal social obligation created by a gift must be and is implicit; although it no longer holds true when the gift drifts towards been a bribe or results in a failed gift

performance, which then made such intended obligation explicit. The social researcher Yan believes that it is the redistributive nature of the socialist economy that has encouraged the unilateral, upward process of gift giving from villagers to cadres that leads to the latter's control over the former's life chances⁹. This has led to the 'instrumentalization' of gift giving, whereby villagers present gifts in exchange for favors or protection. One could argue that the political introduction of an institutionalized monopoly has been a contributing factor to induce gift exchanges to become predominantly instrumental.

Similarly, networks or positive social capital can usually be distinguished from nepotism or negative social capital structures, by focusing on their results or outcome. Networks of *guanxi* are usually characterized by 'general' or 'positive' reciprocity, whereas nepotism could well be characterized by inappropriate pure mutuality or instrumental reciprocity, or even by 'negative' reciprocity¹⁰, indicating a darker side of networks.

A notorious example of negative social capital is the inclusive network of the mafia where the instrumental rather than the social value of relationships is made obvious. The mafia network springs from trust built through giving favours to individuals – *le pouvoir de la faveur* and in an environment that lacks credible and effective systems of justice and law enforcement. The violent side of the Mafioso is a logical consequence of the effort to enforce the monopoly of otherwise legal goods (Gambetta, 1988).

If *guanxi* now is permeated by instrumentality, self-seeking opportunism, and dishonorable attitudes and behaviour rather than by trust relationships based on mutual warmth, loyalty and respect, then an ethically justifiable *guanxi* network easily transgresses into a corrupted nepotistic *guanxi*. Given the lack of strong effective legal institutions and civic traditions, and the overwhelmingly networked nature of Chinese society, "relative deprivation appears to have found expression in egoistic, acquisitive forms, rather than, as Party ideologues would urge, altruistic rallying to improve both material and spiritual civilization among mainland compatriots" (Snell *et al*, 2001: 196).

The Transgression of Networks in Nepotism

As mentioned above, *guanxi* involves not only instrumentality and rational calculation, but also sociability, morality, intentions and personal affections (Yan, 1996). In other words, ambiguity and subtlety are the very essence of *guanxi* relationships, making it sometimes difficult to distinguish their differences. However, when the instrumental value becomes predominant, or when rituals aiming at social and personal relationships are no longer strictly applied, one falls back into the pure instrumentality of a relationship. At that point in time a network assumes the character of a nepotistic relationship, as it veers from its initial intentions of preserving harmonious reciprocity and social structure within a community.

How could networks and alliances be ‘negatively’ (from a certain normative point of view) used and be turned into clientelism and nepotism? The question is not whether one is allowed to instrumentally use personal or social relationships, *guanxi*, for personal gain, but when *guanxi* becomes purely instrumental resulting in nepotistic corruption.

Guanxi has several characteristics that differentiate it from nepotistic or patronage corruption, allowing to demarcate a fine line between inappropriate nepotism *sensu stricto* and appropriate network. Based on a philosophical interpretation of the logic of the gift, such an indicative demarcation threshold is neither exhaustive nor fixed. The following five major possible demarcation criteria could differentiate ‘legitimate’ networks from ‘inappropriate’ nepotistic corruption: the presence of moral and social norms, the time horizon, the ‘cultural’ interpretation of legitimacy of a gift, the nature of the transaction and relationship – i.e. the use of social capital – and the transferability of *guanxi* relationships.

Embeddedness in norms

A certain level of embeddedness in a network of community strings enhances trust between persons (Verhezen, 2000). It is precisely the notion of reciprocity within such community network which adds a flavour of impartiality (beyond pure personal rationality or interest) to particularized trust (Uslaner, 2002). When the impartiality of

networks in which shared common norms and values are transformed into a specific alliance with particular and pure instrumental (self-) interests that are detrimental to the public interest – as in Rousseau’s (2001) “General Will” or Common Good instead of the “Will of All” which is the product of every individual’s particular will - then the network fades into a corrupted and often nepotistic alliance. It is well understood that power, influence and self-interest is at work within most networks, yet a certain level of impartiality of common nature, norms and values can be expected in appropriate networks. Nepotism shows the opposite tendency to de-institutionalize ‘impartial systems’. Therefore, an impartial and fair system of justice aims at the exactly the opposite of what nepotism would try to achieve.

Contracts or favours that are gained through purely Machiavellistic exploitation of networks and connections, and through denying competitive fairness to other players undermines the market mechanism. Empirical cases suggest that while less blatant than bribery *guanxi* can apparently lead well-meaning and presumably ethical business people and their apparently innocent partners seductively to the edges of broad gray areas, and beyond (Snell et al, 2001).

In a more negative perspective, *guanxi* often leads to insider-based decision making as it runs counter to the idea of transparency and openness; hence, its unethical or unacceptable reputation. Because *guanxi* is based on trust and implicit reciprocity, a *guanxi* ‘gift’ can hardly be refused. Obviously, if networks or ‘*guanxi*’ transgress into nepotism, one faces an ethical dilemma: either one engages in long-term business relationships with a certain minimum level of ‘common good’ in mind, or one colludes in bribery (usually shorter term) which usually is associated with close relationship with bureaucratic power (Su *et al*, 2001).

Time horizon

Nepotism is usually based on transaction-based exchanges, whereas genuine *guanxi* networks refer to long-term relationships. Admittedly, the time horizon between nepotism and network is sometimes very vague and non-deterministic. Hence why, other variables such as legality, transferability and the nature of transaction need to be regarded

as additional yardsticks to distinguish nepotism and patronage from genuine guanxi relations.

The nature of the relationship

The moral threshold, i.e. 'reasons to value', of the possible transgression resides in the fact that the relationship becomes purely instrumental. Thus, "if a person only has reason to value a relationship instrumentally, then the principle I have stated does not treat that relationship as a source of special responsibilities" (Scheffler, 1997: 189-190). However, under some description all relationships even intimate ones have instrumental aspects (Tamir, 2000) and the threshold of this unspecified moral theory itself consequently becomes blurred. Moreover, most relationships are not one-dimensional and virtue and vice merge in personalities as well as in relationships.

Cultural legitimacy

When the cultural ritual of guanxi turns into a rent-seeking guanxi, the network may become a form of instrumental manipulation. Obligations (as in *renqing*), reciprocity (*bao*) and some favour seeking which are all quite predominant in Chinese rural areas among villagers and among kinfolk are obvious and respected, whereas the rent seeker or recipient is usually a powerful bureaucrat - reflecting an authoritarian state's organizational hierarchy - with some monopolistic powers. In the place of social and personal relationships, power becomes the driving engine in nepotistic relationships perceived as in very extended family ties which undermines the moral value of *renqing*. This form of negative social capital then could turn into symbolic or economic profit, accrued from a position of power and no longer driven by social rites and rules of courtesy. The social relationship is turned into an instrument to enrich the agent instead of the principal. In other words, guanxi is an acceptable practice among Chinese communities despite pure nepotistic patronage or clietelism been widely condemned.

Although guanxi involves an exchange of favours characterized by *renqing* or genuine feelings of empathy, it is inherently a social transaction and not a pure monetary

exchange as the cost of non-compliance is a loss of face. On the contrary, nepotism and patronage refer to a mere economic inspired transaction between known parties.

Transferability

Long-term guanxi ties and obligations can be transferred to other members of the network, whereas those of corruptive nepotism can hardly be transferred. The role of guanxi in Chinese business culture provides a dramatic example of an entrenched cultural norm that has come under pressure from international business trends. Could this pressure to abandon guanxi' be partially explained by the globalization and the increasing role of rules of law in China and Asia in general?

A constructive use of guanxi in a contemporary global economy?

Guanxi – expressed through the means of gift practices and favours yet emphasizing good faith, respecting another's face - inherently contains the ambiguous criteria of passing the threshold of proper courtesy and *renqing* that makes it possible to turn this cultural ritual into a useful instrument for competitive advantage garnered by an agent for its illegitimate personal gain. The fact that personal and social relationships rather than legalistic contractual agreements form the basis of exchange makes a network-based economy always prone to some form of collusion or nepotism. Although guanxi is firmly entrenched in some cultural rituals, it does not excuse it from being turned to ends far from its original ethical and social objectives. In entering a personal or social relationship, the corporation or the executive is always faced with a certain ethical dilemma when at a particular point in time this relationship evolves and develops an instrumental and useful value.

Perhaps guanxi could be seen as an entry barrier since a lack of guanxi constitutes a comparative disadvantage. In that sense, guanxi can be compared to the Western concept of relationship marketing which is related to trust and involves taking actions to create tightly linked connections between business parties for an enduring long-term

business relationship (Dunfee *et al*, 2001). These relationships are based on the assumption that humans are social creatures and that social bonding underpins many other forms of social and personal interactions. Instead of superior services or products that could have been obtained for the principal, guanxi randomly determines the final outcome resulting in personal gain for the agent and executives as individual beneficiaries of the nepotistic relationship; then, from an efficiency, effectiveness and merit point of view, guanxi is seen as problematic¹¹. Another problem comparing of guanxi with the Western concept of network marketing is the fact that the former is basically social capital owned by individuals who could use these private contacts for either personal gain or for the organization's benefit, whereas in the latter it is organizationally related. Because of the subtlety, discreteness and ambiguity of networks in guanxi, one can hardly figure out if those guanxi connections are used for personal or for organizational gain.

The argument that guanxi may be a more effective option under current Chinese market conditions does not mean that it would be more efficient than a Westernized institutional system of contracts and legal enforcement. One should not forget that the cost of establishing and maintaining guanxi can be quite costly – ranging between five and fifteen percent of the total cost in doing business in China (Fan, 2002: 375) - nor does it necessarily decrease uncertainty since there is a non-specified time gap between the initial and the counter gift. A survey indicated that most business people in China (both foreign and local ones) named branding, quality and distribution channels rather than guanxi as the most important factors in achieving marketing or financial goals (Fan, 2002). Highly personalized social relations and exchanges may increase personal or ‘particularized’ trust between guanxi parties, but they run the risk of lowering the procedural justice of perceived impartial neutrality and can therefore negatively affect ‘generalized’ trust and trust at the institutional level (Chen *et al*, 2004).

The competitiveness of an operating environment is correlated with executives’ attitudes towards guanxi and toward its ethical grounding. Ethics may not immediately pay off, but it definitely wields influence in any relationship. With growing globalization and intertwined international economies that accompany the entry of China into the WTO, the international “rules of the game” will at least to a certain extent likely

converge in the respective business environments. Meanwhile, the availability of information flows and knowledge easily accessed through the use of the Internet, and combined with the rapidly escalating worldwide condemnation of corruption as a powerful and destructive disease for any institution or nation will not only definitely influence the nature but also decrease the business usefulness of guanxi. However, despite the internationalization of the Chinese economy, a majority of Chinese business executives still rely on guanxi networks, i.e. preferring to do business within the guanxi network, exploiting legal loopholes or smoothing out some favourable business decisions from government officials. That also explains Chinese executives' strong resistance to official governance and supervision (Chan *et al*, 2002), and this is understandable given that they could not rely on an impartial legal system to guarantee fairness and neutrality in applying the law.

How will guanxi evolve in the future? Will it decline or does it remain entrenched in Chinese Confucian culture?

With globalization, the outcome on guanxi in China and the Chinese network is unclear. There are basically two schools of thought with respect to the future evolution of guanxi in China's fast-paced business environment. Some believe that the role of guanxi may decline in the face of market forces and expect that business in and beyond Chinese borders will compete on a level playing field based on arm's length-transactions. The other school of thought maintains that despite economic advances guanxi will remain entrenched and deeply embedded in the Chinese Confucian culture and will, and will likely continue to influence business conduct in the future.

Imposing a minimum of procedural neutrality in terms of unbiased procedures and some policies structured towards impartiality will help increase 'generalized' trust in Asian management and benefit merit based efficiency in companies. In short, if they occur in public domains of life when there is a high potential for conflicts of interest and if they are examined through the lens of justice or those of procedural justice, guanxi practices are more likely to be viewed as problematic. But then again, changing the underlying values of 'particularity' towards a more 'impartial' market system may take time. Any hasty transition should be avoided. And we should not ignore the important fact that guanxi – or any (business) relationship for that matter – remains a potent

strategic or tactic weapon in the form of social and symbolic capital, which obviously can be turned into economic capital and gain.

Conclusion

Although both are based on the principle of reciprocity, positive social capital significantly differs from negative social capital. Guanxi can be both, depending on the precise meaning and interpretation of the relationship in place. This essay has attempted to provide some useful critical factors which could demarcate the threshold between 'legitimate' networks and 'inappropriate' nepotism, patronage or clientelism. The nature of the relationship of guanxi is very much determined by a tendency as to which side one is leaning to.

One can observe a trend that China and other nations such as Indonesia, Philippines, Thailand and Vietnam are slowly moving from a pure relationship-based system to a more rule-based society where the importance of procedural neutrality in managerial decisions is acknowledged. While reciprocating favours is a virtuous quality, fair treatment of all subordinates, regardless of their guanxi affiliations should be part of world best practice. It is also worth to note that guanxi *ceteribus paribus* use personal trusted relations as legitimate considerations to improve management decisions when merit and procedural justice are not fully conclusive.

One could possibly argue that the personal use of guanxi may be elevated to an organizational level, which then could be interpreted as a more neutral part of the social and customer capital of the organization. Even though particularism – as in giving priority to particular relationships over general standards – may be stronger in China than in many Western societies, its legitimacy and applicability in modern Chinese enterprises have been severely challenged by the ascending value of the rule of laws, merit-based reward and global competitiveness. Besides, in a growing “capitalistic” oriented economy based on merit and competition, accountability, transparency and formal rules, the influence of guanxi as an instrument to gain personal advantage may decrease over time while its social – in this particular case Confucian - meaning may remain entrenched in

cultural life. The Chinese who are more keenly competitive and thus more-profit oriented tend to empirically be more concerned with guanxi and its instrumental use than with its underlying ethical principles. Hence, completely avoiding the less socially benevolent or even pure instrumental and negative side of guanxi will prove to be extremely difficult and even naive. Blindly accepting guanxi as a cultural Chinese practice without questioning its intentions, the reasons behind it and its possible consequences for a company would also be a grave mistake. It would be wise to understand the pitfalls of guanxi, allowing it to play its social role in these Asian societies by advocating appropriate networks while acknowledging its intrinsic ambiguities and temptations.

Notes

¹ Bribery is here then defined as the result or the misuse of a monopolistic position of a certain agent, without clear accountability for his/her actions and under the banner of discretion/secret, where the agent does benefit from his position to illegally and personally gain at the expense of the principal. Noonan (1984: XI) describes a bribe as “an inducement improperly influencing the performance of a public function meant to be gratuitously exercised.” Furthermore, he states that “bribery is a legal concept; hence the law determines what counts as bribery in a particular society.”

² Nepotism is defined as the practice among people with power or influence of favouring their own relatives and extended family members, especially by giving them jobs; achieve promotion through nepotism. The emphasis is here on the extension of the perceived family which can be very broadly interpreted as anyone with whom one has a certain ‘bonding’ or relationship through gifts practices as is considered “appropriate” in Asia. Clientelism is slightly broader interpreted and include non family members in the network of loyal members who are bound by valuable gifts and job opportunities in return for complete loyalty.

³ Johnston (1989) distinguishes some varieties of corruption as defined by types of stakes and number of suppliers and mentions four generic types: market corruption with many suppliers and routine stakes; patronage networks with a few suppliers and routine stakes; cronyism and nepotism with a few suppliers and extraordinary stakes; and crisis corruption with many suppliers and extraordinary stakes. For our purpose here, it is interesting to mention that “cronyism and nepotism are small group affairs, at least compared to market corruption and patronage organizations. Cronyism and nepotism are to a limited degree internally integrative, drawing participants into relationships of obligation and reward and fostering collective interests in maintaining secrecy and in excluding outsiders. Internal integration is weakened, however, by the fact that cronyism and nepotism are somewhat unstable.

⁴ Steidlmeier (1999) states that ‘*li*’ rests upon a broad normative ethic of ‘right relations’ which express the heart of ethical concern and respect in the Confucian tradition. Indeed, both relationship networks, i.e. *guanxi*, and the social stature of *face* – as well as respect for others, expressed through the ‘face’ that is paramount in Asian culture – are enshrouded in public rituals [*li*] which express status within the group, respect and bonding in formal terms.

⁵ See Yang (1994: 63) who argues that *renqing* can be found in ancient Confucian discourse, such as in Han dynasty (206 BCE – 220 CE) text of The Book of Rites, where *renqing* refers to the natural human feelings and emotions found in father – son relationships, and as well within family and kin relationships and friendships. The following three main features are cited: 1) human nature is defined, not as an individual quality, but in terms of social relationships and interaction; 2) there is a proper way of conducting oneself in social relationships; and 3) any bond is characterized by reciprocity. In line with Yang’s analysis, one could argue that expresses its true meaning when it focuses on sympathy, friendship, understanding, and interdependence. People associate with each other by intimate interactions and by exchanging gift objects and favours in a heartfelt manner.

⁶ See Verhezen (2003). The major differences that indicate a bribe rather than a gift lie in the absence of a time gap between the gift and counter-gift, the secrecy of the disguised gift, non-accountability on behalf of the agent receiving the gift, explicit instead of implicit claims of reciprocity, and the misuse of some kind of monopolistic power by the agent at the expense of the principal. The briber uses the banner of the gift to disguise, to hide its illegal and actual nature of this exchange.

⁷ Because guanxi, by its very nature, discriminates against people outside the guanxi network, one could argue that it contravenes the principle of fairness. However, in business, one would argue, one strives to gain competitive advantages, as long as the law and the 'rules of the game' are respected.

⁸ Particularly the groundwork on social capital as explicated by social scientists Robert Putnam, Pierre Bourdieu, James Coleman and Francis Fukuyama are of great relevance to understand the notion of 'social capital' more accurately. For a good overview on the current debate on 'social capital, see Hooghe & Stolle (2003) and Portes (1998).

⁹ See Yan (1996: 236) who states that reciprocity as fundamental in guanxi relationships. Moreover, reciprocity has been the core of gift exchanges in rural life for ages. He believes it is the redistributive nature of the socialist economy that has encouraged the unilateral, upward process of gift giving from villagers to cadres, become of the latter's control over the former's life chances. This has led to the instrumentalization of gift giving, whereby villagers present gifts in exchange for favours or protection. It could be argued that the political introduction of a monopoly has induced gift exchanges to become predominantly instrumental.

¹⁰ See Sahlins (1972) who uses the term 'negative reciprocity'. Sahlins defines general(ized) reciprocity as giving more than is expected back, usually among family members or close friends; positive reciprocity can be considered as a typical gift where over time a counter-gift is expected back, usually found among acquaintances or business relations; calculated or pure instrumental reciprocity looks almost like a pure commercial exchange. Free-riding or dealing with adversaries refers to negative reciprocity where some free service or destruction is aimed at.

¹¹ Dunfee & Warren (2001) provide an interesting overview of reasons why the use of guanxi in business may be quite problematic: (1) as a social practice, guanxi may reduce social wealth; (2) as a social practice, guanxi benefits a few at the expense of the many; (3) guanxi may result in the violation of important fiduciary duties; (4) guanxi may not be supported by the authentic norms of relevant communities; (5) certain uses of guanxi may violate "hypernorms" (basic universal values-norms-rights); (6) guanxi may corrupt background institutions in contrast to an impartial, efficient and fair legal system which can be considered an essential foundation for a just society.

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